

OS-135679

S R B

FORM G - 36 (OS) - FOR OFFICIAL STATEMENTS

SECTION I - MATERIALS SUBMITTED

THIS FORM IS SUBMITTED IN CONNECTION WITH (check one):

1. ☒ A FINAL OFFICIAL STATEMENT RELATING TO A PRIMARY OFFERING OF MUNICIPAL SECURITIES (enclose two (2) copies)

(a) DATE RECEIVED FROM ISSUER: 02/28/2002

(b) DATE SENT TO MSRB: 02/28/2002

2. ☐ AN AMENDED OFFICIAL STATEMENT WITHIN THE MEANING OF RULE G-36(d) (enclose two (2) copies)

(a) DATE RECEIVED FROM ISSUER: _____

(b) DATE SENT TO MSRB: _____

IF MATERIALS SUBMITTED WITH THIS FORM CONSIST OF MORE THAN ONE DOCUMENT (e.g. preliminary official statement and wrap, even if physically attached), PLEASE CHECK HERE: ☐C. IF THIS FORM AMENDS PREVIOUSLY SUBMITTED FORM WITHOUT CHANGING MATERIALS SUBMITTED, PLEASE CHECK HERE (include copy of original form G-36 (OS)): ☐

SECTION II - IDENTIFICATION OF ISSUE(S)

Each issue must be listed separately.

If more space is needed to list additional issues, please include on a separate sheet and check here: ☐

NAME OF COUNTY OF SAN DIEGO, CALIFORNIA CERTIFICATES OF PARTICIPATION (2002 MOTOROLA REFUNDING)

ISSUER

DESCRIPTION A

P ISSUE

STATE: CA

DATED

DATE: 03/01/2002

NAME OF

ISSUER

DESCRIPTION

P ISSUE

STATE:

DATED

DATE:

NAME OF

ISSUER

DESCRIPTION

P ISSUE

STATE:

DATED

DATE:

SECTION III - TRANSACTION INFORMATION

LATEST FINAL MATURITY DATE OF ALL SECURITIES IN OFFERING: 02/01/2011

DATE OF FINAL AGREEMENT TO PURCHASE, OFFER OR SELL SECURITIES (Date of Sale): 02/27/2002

ACTUAL OR EXPECTED DATE OF DELIVERY OF SECURITIES TO UNDERWRITER(S) (Bond Closing): 03/01/2002

IF THESE SECURITIES ADVANCE REFUND ALL OR A PORTION OF ANOTHER ISSUE, PLEASE CHECK HERE: ☐

A separate Form G-36(ARD) and copies of the advance refunding documents must be submitted for each issue advance refunded.

SECTION IV - UNDERWRITER ASSESSMENT INFORMATION

The information will be used by the MSRB to compute any rule A-13 underwriting assessment that may be due on this offering. The managing underwriter will be sent an invoice if a rule A-13 assessment is due on the offering.

MANAGING

UNDERWRITER Morgan Stanley & Co., Incorporated

TOTAL PAR VALUE OF ALL SECURITIES IN OFFERING \$ 26,060,000

PAR AMOUNT OF SECURITIES UNDERWRITTEN (if different from the amount shown in item B above): \$

CHECK ALL THAT APPLY

SEC REG.

NUMBER: 8-15869

1. ☐ At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every nine months until maturity, earlier redemption, or purchase by the issuer or its designated agent.
2. ☐ At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every two years until maturity, earlier redemption, or purchase by the issuer or its designated agent.
3. ☐ This offering is exempt from SEC rule 15c2-12 under section (c)(1) of that rule. Section (c)(1) of SEC rule 15c2-12 states that an offering is exempt from the requirements of the rule if the securities offered have authorized denominations of \$100,000 or more and sold to no more than 35 persons each of whom the participating underwriter believes: (1) has the knowledge and expertise necessary to evaluate the merits and risks of the investment; and (2) is not purchasing for more than one account, or with a view toward distributing the securities.

SECTION V - CUSIP INFORMATION

MSRB rule G-34 requires that CUSIP numbers be assigned to each new issue of municipal securities unless the issue is ineligible for CUSIP number assignment under the eligibility criteria of the CUSIP Service Bureau.

CUSIP-9 NUMBERS OF THE ISSUE(S)

Maturity Date	CUSIP Number	Maturity Date	CUSIP Number	Maturity Date	CUSIP Number
02/01/2003A	797391VX4	02/01/2004A	797391VY2	02/01/2005A	797391VZ9
02/01/2006A	797391WA3	02/01/2007A	797391WG0	02/01/2008A	797391WH8
02/01/2009A	797391WJ4	02/01/2009P	797391WD7	02/01/2010A	797391WK1
02/01/2010P	797391WE5	02/01/2011A	797391WL9	02/01/2011P	797391WF2

IF ANY OF THE ABOVE SECURITIES HAS A "CUSIP-6" BUT NO "CUSIP-9", CHECK HERE AND LIST THEM BELOW: []

(Please see instructions in Form G-36 Manual)

LIST ALL CUSIP-6 NUMBERS ASSIGNED: _____

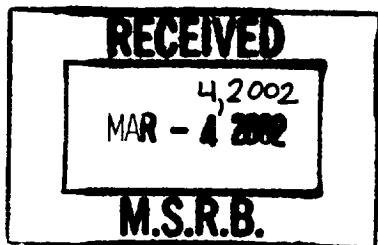
State the reason why such securities have not been assigned a "CUSIP-9": _____

IF ANY OF THESE SECURITIES IS INELIGIBLE FOR CUSIP NUMBER ASSIGNMENT, PLEASE CHECK HERE: []

State the reason why such securities are ineligible for CUSIP number assignment: _____

SECTION VI - MANAGING UNDERWRITER'S CERTIFICATION AND SIGNATURE

THE UNDERSIGNED CERTIFIES THAT THE MATERIALS ACCOMPANYING THIS FORM ARE AS DESCRIBED IN SECTION I ABOVE AND THAT ALL OTHER INFORMATION CONTAINED HEREIN IS TRUE AND CORRECT. THE UNDERSIGNED ACKNOWLEDGES THAT SAID MATERIALS WILL BE PUBLICLY DISSEMINATED.



ON BEHALF

SIGNED: _____

NAME: Will

(PRINT - M

PHONE: (71

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rwriter

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ed or noted as inappl.

OR

form and two copies o:
the MSRB within the me:

ment must

erials to MSRB, MSIL System, 1900 Duke Street, Suite 600, Alexandria, Virginia

\$26,060,000

COUNTY OF SAN DIEGO
Certificates of Participation
(2002 Motorola Refunding)
Evidencing and Representing Proportionate Undivided Interests of the Owners
Thereof in Base Rental Payments to be Made by the
County of San Diego to the San Diego County Capital Asset Leasing Corporation
Dated: Date of Delivery**Due: February 1, as shown below**

The County of San Diego Certificates of Participation (2002 Motorola Refunding) (the "Certificates") are being executed and delivered pursuant to a Trust Agreement, dated as of March 1, 2002, by and among State Street Bank and Trust Company of California, N.A., as trustee (the "Trustee"), the County of San Diego (the "County") and the San Diego County Capital Asset Leasing Corporation (the "Corporation"). The Certificates evidence proportionate undivided interests in the Base Rental Payments to be made by the County pursuant to that certain Equipment Lease, dated as of March 1, 2002 (the "Lease") to be entered into by the County and the Corporation, pursuant to which the County will lease from the Corporation certain equipment, as more particularly described herein (the "Equipment"). See "Security and Sources of Payment for the Certificates – Base Rental Payments." The proceeds of the Certificates will be applied to (i) repay the outstanding aggregate principal amount of the County's obligation under the Equipment Lease-Purchase Agreement, dated as of December 29, 1995, as amended, and (ii) pay certain costs of issuance incurred in connection with the Certificates. See "The Equipment and the Plan of Finance" herein.

Interest represented by the Certificates is payable on February 1 and August 1 of each year, commencing on August 1, 2002. The Certificates will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive certificates representing their ownership interests in the Certificates purchased. Principal and interest payments represented by the Certificates are payable directly to DTC by the Trustee from Base Rental Payments (as defined herein). Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Certificates. See Appendix D – "Book-Entry System" herein.

Payment of principal of and interest with respect to the Certificates when due will be insured by a Financial Guaranty Insurance Policy to be issued concurrently with the delivery of the Certificates by Ambac Assurance Corporation. See "The Insurer – Payment Pursuant to the Financial Guaranty Insurance Policy" herein and Appendix F – "Specimen of Financial Guaranty Insurance Policy and Reserve Surety Policy" attached hereto.

Ambac

The Certificates are subject to extraordinary prepayment, as described herein. See "The Certificates – Prepayment".

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL RENTAL UNDER THE LEASE DOES NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS OR TO PAY ADDITIONAL RENTAL UNDER THE LEASE CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

MATURITY SCHEDULE**BASE CUSIP No.: 797391**

Maturity (February 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP	Maturity (February 1)	Principal Amount	Interest Rate	Price	CUSIP
2003	\$2,655,000	2.00%	1.40%	VX4					
2004	2,635,000	2.00	100	VY2					
2005	2,685,000	3.00	2.45	VZ9					
2006	2,765,000	3.00	2.75	WA3					
2007	2,850,000	3.10	100	WG0					
2008	2,940,000	3.30	3.35	WH8					
2009	2,360,000	5.00	3.60	WD7	2009	\$ 675,000	3.60%	100%	WJ4
2010	2,125,000	5.00	3.75	WE5	2010	1,050,000	3.75	100	WK1
2011	2,310,000	5.00	3.90	WF2	2011	1,010,000	3.90	100	WL9

This cover page contains information for quick reference only. It is not a summary of this issue. Potential purchasers must read the entire Official Statement to obtain information essential to making an informed investment decision.

In the opinion of Orrick, Herrington & Sutcliffe LLP and The HTB Law Group, Co-Special Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the portion of each Base Rental Payment attributed to and constituting interest paid by the County under the Lease and received by the registered owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Co-Special Counsel, such interest portion of each Base Rental Payment is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Co-Special Counsel observe that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Co-Special Counsel express no opinion regarding any other tax consequences related to the ownership or disposition of the Certificates, or the accrual or receipt of the portion of each Base Rental Payment attributable to and constituting such interest. See "Tax Matters" herein.

The Certificates will be offered when, as and if executed and delivered, and received by the Underwriters, subject to the approval as to their legality by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California and The HTB Law Group, Oakland, California, Co-Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins, Delafield & Wood, Los Angeles, California, and for the County and the Corporation by the County Counsel. It is anticipated that the Certificates in definitive form will be available for delivery to DTC in New York, New York, on or about March 1, 2002.

MORGAN STANLEY**A.G. EDWARDS & SONS, INC.****ESTRADA HINOJOSA & COMPANY, INC.**

Dated: February 27, 2002

**COUNTY OF SAN DIEGO
BOARD OF SUPERVISORS**

Ron Roberts, Chairman	Fourth District
Gregory Cox, Vice-Chairman	First District
Dianne Jacob	Second District
Pam Slater	Third District
Bill Horn	Fifth District

**SAN DIEGO COUNTY CAPITAL ASSET LEASING CORPORATION
BOARD OF DIRECTORS**

Michel Anderson, Chairman
Timothy Considine, Vice-Chair
Hardy Kuykendall, Secretary
Jeff Kane
Barry I. Newman

COUNTY OFFICIALS

Walter F. Ekard, *Chief Administrative Officer*
Bart J. Hartman, *Treasurer - Tax Collector*
William J. Kelly, *Chief Financial Officer/Auditor and Controller*
John J. Sansone, *County Counsel*

SPECIAL SERVICES

Co-Special Counsel

Orrick, Herrington & Sutcliffe LLP
Los Angeles, California

The HTB Law Group
Oakland, California

Financial Advisor

RBC Dain Rauscher Inc.
Los Angeles, California

Trustee

State Street Bank and Trust Company of California, N.A.
Los Angeles, California

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This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Certificates by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the County, the Corporation, or the Underwriters.

This Official Statement is not to be construed as a contract with the purchasers of the Certificates. Statements contained in this Official Statement which involve estimates, projections, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

The information set forth herein has been provided by the County and other sources that are believed by the County to be reliable. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County or the Corporation since the date hereof. This Official Statement is submitted with respect to the sale of the Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the County. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions. Preparation of this Official Statement and its distribution have been duly authorized and approved by the County and the Corporation.

In connection with the offering of the Certificates, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Certificates at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Certificates to certain dealers, institutional investors and others at prices lower than the public offering prices stated on the cover page hereof and such public offering prices may be changed from time to time by the Underwriters.

\$26,060,000
COUNTY OF SAN DIEGO
Certificates of Participation
(2002 Motorola Refunding)
Evidencing and Representing Proportionate Undivided Interests of the Owners
Thereof in Base Rental Payments to be Made by the
County of San Diego to the San Diego County Capital Asset Leasing Corporation

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Certificates being offered, and a brief description of the Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Trust Agreement and the Lease. See Appendix C – "Summary of Principal Legal Documents – Definitions."

General

This Official Statement, including the cover page and the Appendices attached hereto (the "Official Statement"), provides certain information concerning the sale and delivery of the County of San Diego Certificates of Participation (2002 Motorola Refunding) in an aggregate principal amount of \$26,060,000 (the "Certificates"). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of March 1, 2002, by and among State Street Bank and Trust Company of California, N.A., as trustee (the "Trustee"), the County of San Diego (the "County") and the San Diego County Capital Asset Leasing Corporation (the "Corporation") to (i) repay the outstanding aggregate principal amount of the County's obligation under the Equipment Lease-Purchase Agreement, dated as of December 29, 1995, as amended, and (ii) pay certain costs of issuance incurred in connection with the Certificates. See "Plan of Finance" herein.

The Certificates evidence proportionate undivided interests in the Base Rental Payments to be made by the County pursuant to that certain Equipment Lease, dated as of March 1, 2002 (the "Lease") to be entered into by the County and the Corporation, pursuant to which the County will lease the equipment from the Corporation, as more particularly described herein (the "Equipment"). See "Security and Sources of Payment for the Certificates - Base Rental Payments."

Security and Source of Payment for the Certificates

Under the Lease, in consideration for the use and possession of the Equipment, the County has agreed to make certain payments designated as Base Rental Payments and certain other payments designated as Additional Rental, in the amounts, at the times and in the manner set forth in the Lease. Base Rental Payments are scheduled to be sufficient to pay, when due, amounts designated as principal and interest represented by the Certificates. The County has covenanted in the Lease to take such action as may be necessary to include all Base Rental Payments and the Additional Rental due thereunder in its operating budget for each fiscal year commencing after the date of the Lease, and to make the necessary appropriations for such Base Rental Payments and Additional Rental, except to the extent such payments are abated in accordance with the Lease.

The County is required to make Base Rental Payments in accordance with the provisions of the Lease. However, the County is not obligated to levy or pledge any form of taxation for the payment of Base Rental

Payments for the Equipment, nor has the County levied or pledged any such tax. Pursuant to an Assignment Agreement, dated as of March 1, 2002 (the "Assignment Agreement"), by and between the Trustee and the Corporation, the Corporation will assign to the Trustee, for the benefit of the Owners of the Certificates (i) all of its right, title and interest in and to the Lease, and (ii) all of its right, title and interest in and to the Lease including the right to receive Base Rental Payments under the Lease. Pursuant to the Trust Agreement, the Trustee has agreed to distribute Base Rental Payments received from the County as principal and interest represented by the Certificates. See Appendix C – "Summary of Principal Legal Documents – The Lease" and "– Trust Agreement."

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL RENTAL UNDER THE LEASE DOES NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS OR TO PAY ADDITIONAL RENTAL UNDER THE LEASE CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The County's obligation to pay Base Rental Payments is subject to abatement. However, during periods of abatement, any moneys in the Base Rental Payment Fund representing earned Base Rental Payments, moneys in the Certificate Reserve Fund and proceeds, if any, of rental interruption insurance are available to pay Base Rental Payments. See "Security and Sources of Payment for the Certificates – Base Rental Payments" and "– Abatement."

The Certificates

The Certificates will be executed and delivered in the form of fully registered Certificates in principal amounts of \$5,000 each or any integral multiple thereof. The Certificates will be dated their initial date of delivery and mature on February 1 in the years set forth on the cover page hereof. Interest represented by the Certificates is payable on February 1 and August 1 of each year, commencing on August 1, 2002.

The Certificates will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive certificates representing their ownership interests in the Certificates purchased. Principal and interest payments represented by the Certificates are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Certificates. See "The Certificates – General" and Appendix D – "Book-Entry System."

Financial Guaranty Insurance Policy

Payment of principal and interest with respect to the Certificates when due will be insured by a Financial Guaranty Insurance Policy to be issued concurrently with the delivery of the Certificates by Ambac Assurance Corporation. See "The Insurer – Financial Guaranty Insurance Policy" herein and Appendix F – "Specimen of Financial Guaranty Insurance Policy" attached hereto.

Tax Matters

For a summary of the opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California and The HTB Law Group, Oakland, California, Co-Special Counsel, see "Tax Matters" herein.

Continuing Disclosure

The County has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (each, a "Repository") certain annual financial information and operating data and, in a timely manner, notice of certain material events. These covenants have been made in order to assist the Underwriters in complying with SEC Rule 15c2-12(b)(5). See "Continuing Disclosure" herein for a description of the specific nature of the annual report and notices of material events and a summary description of the terms of the disclosure agreement pursuant to which such reports are to be made. The County has never failed to comply with this covenant.

Forward-Looking Statements

Certain statements included or incorporated by reference in the Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although such expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. The County is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

Miscellaneous

The Certificates will be offered when, as and if executed and delivered, and received by the Underwriters, subject to the approval as to their legality by Co-Special Counsel and certain other conditions.

The description herein of the Trust Agreement, the Lease and the Assignment Agreement and any other agreements relating to the Certificates are qualified in their entirety by reference to such documents, and the descriptions herein of the Certificates are qualified in their entirety by the form thereof and the information with respect thereto included in the aforementioned documents. See Appendix C – "Summary of Principal Legal Documents." Copies of the documents are on file and available for inspection at the Principal Corporate Trust Office of the Trustee at State Street Bank and Trust Company of California, N.A., 633 West 5th Street, 12th Floor, Los Angeles, California 90071, Attention: Corporate Trust Department.

The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the County since the date hereof.

The presentation of information, including tables of receipt of revenues, is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or

other affairs of the County. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

THE EQUIPMENT AND THE PLAN OF FINANCE

The Equipment consists of certain equipment originally manufactured by Motorola, Inc. and other manufacturers and leased to the County under a vendor lease agreement. The Equipment is part of a regional public safety/public services wireless radio communications system (the "System") using 800 MHz radio frequencies. The Equipment is specifically comprised of certain "backbone" equipment for the System, including, voice system central electronics, voice system simulcast equipment, a mobile data system controller and voice and mobile data radio base stations and associated control and communication equipment.

The Equipment was financed in 1996 and became operational in May 1998. The System provides regional communications capabilities for over 14,000 radio users of 179 public agencies within the County, as well as the State of California Department of Transportation. The System is designed to provide its users with an effective and reliable radio communication for routine intra-agency operations and inter-agency communications during mutual aid and disaster operations within the 4,500 square miles of the County.

The County intends to exercise its purchase option under the existing financing lease and will prepay its obligations thereunder with the proceeds of the Certificates.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are as follows:

Sources:

Principal Amount of Certificates	\$26,060,000.00
Plus Net Original Issue Premium	644,020.55
County Contribution	<u>2,395,376.80</u>
Total Sources	<u>\$29,099,397.35</u>

Uses:

Refunding of Motorola Lease	\$28,478,801.32
Deposit to Administrative Expense Fund	20,000.00
Costs of Issuance ⁽¹⁾	<u>600,596.03</u>
Total Uses	<u>\$29,099,397.35</u>

⁽¹⁾ Includes underwriter's discount, rating agencies fees, Financial Guaranty Insurance premium, Reserve Fund Surety Bond premium, legal fees and printing costs and other costs of issuance.

THE CERTIFICATES

The following is a summary of certain provisions of the Certificates. Reference is made to the Certificates for the complete text thereof and to the Trust Agreement for a more detailed description of such provisions. The discussion herein is qualified by such reference.

General

The Certificates will be executed and delivered in the form of fully registered Certificates in principal amounts of \$5,000 each or any integral multiple thereof. The Certificates will be dated their initial date of delivery and mature on February 1 in the years set forth on the cover page hereof. Interest represented by the Certificates is payable on February 1 and August 1 of each year, commencing on August 1, 2002.

The Certificates will be delivered in fully registered form only, and when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Certificates. Ownership interests in the Certificates may be purchased in book-entry form only. See Appendix D – "Book-Entry System."

Prepayment

Extraordinary Prepayment. The Certificates are subject to prepayment on any date prior to their respective Principal Payment Dates, as a whole, or in part, at the direction of the County, from the net proceeds of any insurance or condemnation award with respect to the Equipment or portions thereof, at a prepayment price equal to the sum of the principal amount represented thereby plus accrued interest represented thereby to the date fixed for prepayment, without premium.

Selection of Certificates for Prepayment. Whenever less than all of the Outstanding Certificates are to be prepaid on any one date, the County shall determine which Certificates are to be prepaid. Whenever less than all the Outstanding Certificates are to be prepaid on any one date, the Trustee shall select the Certificates to be prepaid in any manner that the Trustee deems fair and appropriate, which decision shall be final and binding upon the County, the Corporation and the Owners, and the Trustee shall promptly notify the Corporation and the County in writing of the numbers of the Certificates so selected for prepayment on such date. For purposes of such selection, any Certificate may be prepaid in part in Authorized Denominations.

Notice of Prepayment. When prepayment is authorized pursuant to the Trust Agreement, the Trustee shall give notice, at the expense of the County, of the prepayment of the Certificates. The notice of prepayment shall specify: (a) the Certificates or designated portions thereof (in the case of prepayment of the Certificates in part but not in whole) which are to be prepaid, (b) the date of prepayment, (c) the place or places where the prepayment will be made, including the name and address of any paying agent, (d) the prepayment price, (e) the CUSIP numbers assigned to the Certificates to be prepaid, (f) the numbers of the Certificates to be prepaid in whole or in part (if less than all of the Certificates of a maturity are to be prepaid) and, in the case of any Certificates to be prepaid in part only, the amount of such Certificates to be prepaid, and (g) the stated Principal Payment Date of each Certificate to be prepaid in whole or in part. Such notice of prepayment shall further state that on the specified date there shall become due and payable upon each Certificate or portion thereof being prepaid the prepayment price, together with interest accrued to the prepayment date thereon, and that from and after such date interest represented thereby shall cease to accrue and be payable.

BOOK-ENTRY SYSTEM

The Certificates will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which

will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive Certificates representing their ownership interests in the Certificates purchased. Principal and interest payments represented by the Certificates are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Certificates. See Appendix D – "Book-Entry System."

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

Base Rental Payments

General. The Certificates represent the aggregate principal components of the Base Rental Payments, each evidencing and representing a proportionate, undivided interest in the Base Rental Payments to be made by the County under the Lease. The County is required under the Lease to make Base Rental Payments from legally available funds. The County has covenanted in the Lease to take such action as may be necessary to include all Base Rental Payments and Additional Rental with respect to the Equipment in its operating budget for each fiscal year commencing after the date of the Lease and to make the necessary appropriations for such Base Rental Payments and Additional Rental (except to the extent such payments are abated in accordance with the Lease). In addition, to the extent permitted by law, the County covenants in the Lease to take such action as may be necessary to amend or supplement the budget appropriations for payments under the Lease at any time and from time to time during any fiscal year in the event that the actual Base Rental Payments and Additional Rental paid in any fiscal year exceeds the pro rata portion of the appropriations then contained in the County's budget. Base Rental Payments are scheduled to be paid as set forth below. See "– Base Rental Payment Schedule." THE COUNTY HAS NOT PLEDGED THE FAITH AND CREDIT OF THE COUNTY, THE STATE OR ANY AGENCY OR DEPARTMENT THEREOF TO THE PAYMENT OF SUCH BASE RENTAL PAYMENTS.

The Trustee, pursuant to the Trust Agreement, will receive Base Rental Payments for the benefit of the Owners. Base Rental Payments are scheduled to be sufficient to pay, when due, amounts designated as principal and interest represented by the Certificates. The Trustee will not have any obligation or liability to the Owners to make payment of principal, premium, if any, or interest represented by the Certificates except from Base Rental Payments by the County under the Lease or other amounts available to it under the Trust Agreement for such purposes; and the amounts of such payments shall be limited to amounts designated as principal and interest represented by the Certificates. Additional Rental payable by the County under the Lease includes amounts sufficient to pay certain taxes and assessments and insurance premiums, and certain administrative costs.

Subject to the provisions of the Lease relating to abatement more particularly described below, the Lease provides that the obligation of the County to make Base Rental Payments and Additional Rental shall be absolute and unconditional and such Base Rental Payments and Additional Rental will not be subject to set-off or counterclaim. The Lease provides that the covenants of the County thereunder are deemed to be duties imposed by law, and it further provides that it will be the duty of each and every public official of the County to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the County to carry out and perform the covenants and agreements of the County contained in the Lease. The Lease provides that the County shall pay Base Rental Payments and Additional Rental from legally available funds.

There is no remedy of acceleration of Base Rental Payments over the term of the Lease.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL RENTAL UNDER THE LEASE DOES NOT CONSTITUTE AN OBLIGATION OF THE

COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS OR TO PAY ADDITIONAL RENTAL UNDER THE LEASE CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. SEE APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – THE LEASE – RENTAL PAYMENTS – RENTAL ABATEMENT."

Base Rental Payments Schedule. The County shall pay to the Trustee, as assignee of the Corporation, Base Rental Payments semiannually not later than one business day preceding February 1 and August 1, commencing on August 1, 2002, for so long as any Certificates shall remain outstanding, Base Rental Payments in the amounts set forth in Lease, a portion of which Base Rental Payments shall constitute interest. Pursuant to the Trust Agreement and the Lease, the Base Rental Payments will be deposited in the Base Rental Payment Fund and applied to principal and interest payments as they become due. A table of semiannual Base Rental Payments with respect to the Certificates is set forth below:

<u>Payment Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments (February 1)</u>
August 1, 2002	--	\$373,952.08	--
February 1, 2003	\$2,655,000	448,742.50	\$3,477,694.58
August 1, 2003	--	422,192.50	--
February 1, 2004	2,635,000	422,192.50	3,479,385.00
August 1, 2004	--	395,842.50	--
February 1, 2005	2,685,000	395,842.50	3,476,685.00
August 1, 2005	--	355,567.50	--
February 1, 2006	2,765,000	355,567.50	3,476,135.00
August 1, 2006	--	314,092.50	--
February 1, 2007	2,850,000	314,092.50	3,478,185.00
August 1, 2007	--	269,917.50	--
February 1, 2008	2,940,000	269,917.50	3,479,835.00
August 1, 2008	--	221,407.50	--
February 1, 2009	3,035,000	221,407.50	3,477,815.00
August 1, 2009	--	150,257.50	--
February 1, 2010	3,175,000	150,257.50	3,475,515.00
August 1, 2010	--	77,445.00	--
February 1, 2011	3,320,000	77,445.00	3,474,890.00

In accordance with the Lease, the County is obligated to make Base Rental Payments scheduled to be sufficient to pay, when due, amounts designated as principal and interest represented by the Certificates, and certain other payments designated as Additional Rental, as set forth in the Lease. The County is required to make Base Rental Payments as directed in the Lease. The County has covenanted in the Lease to take such action as may be necessary to include all Base Rental Payments and the Additional Rental due thereunder in its operating budget for each fiscal year commencing after the date of the Lease, and to make the necessary appropriations for such Base Rental Payments and Additional Rental, except to the extent such payments are abated in accordance with the Lease. However, the County is not obligated to levy or pledge any form of taxation for the payment of rental for the Equipment, nor has the County levied or pledged any such tax.

Certificate Reserve Fund

The Certificate Reserve Fund shall be held by the Trustee and shall be kept separate and apart from all other funds held by the Trustee. The Trustee shall administer such fund as provided in the Trust Agreement.

The "Certificate Reserve Fund Requirement" shall be, as of any date of calculation, an amount initially equal to \$2,670,402.06 but in no event less than the lesser of (i) maximum prospective annual Base Rental Payments with respect to Outstanding Certificates and Additional Certificates to be made by the County under the Lease in any Lease Year, (ii) 10% of the proceeds of the Certificates and any Additional Certificates, in accordance with the Tax Certificate or (iii) 125% of the average annual Base Rental Payments with respect to Outstanding Certificates and Additional Certificates to be made by the County under the Lease. In order to satisfy the Certificate Reserve Fund Requirement, concurrently with the execution and delivery of the Certificates the County will purchase from Ambac Assurance Corporation (the "Insurer") a Reserve Fund Surety Bond ("Reserve Fund Surety Bond"). Amounts available to the Certificate Reserve Fund are to be used only to pay the interest and principal due with respect to the Certificates to the extent that amounts in the Interest Fund and the Principal Fund are insufficient therefor or to make the final payment on the Certificates; provided that amounts in the Certificate Reserve Fund may be invested as permitted under the Trust Agreement. Base Rental Payments made by the County and not needed to pay past due interest and principal shall be deposited in the Certificate Reserve Fund to the extent the amount on deposit there in is less than the Certificate Reserve Fund Requirement. See Appendix C – "Summary of Principal Legal Documents – Trust Agreement."

Insurance

The Lease provides that the County will procure and maintain or cause to be secured and maintained throughout the term of the Lease for the Equipment insurance or self-insurance or self-funding against the risks and in the amounts set forth in the Lease. Such insurance includes "all risk" insurance against loss or damage to the Equipment. This insurance may include a deductible clause providing for a deductible not to exceed \$100,000 for any one loss (except for flood, in which case the deductible may not exceed \$100,000 for any one loss); provided that the amount of such deductibles may be increased with the consent of the Insurer. The requirements of the deductible clause not satisfied by an insurance policy shall be met through the County's self insurance program. The County may obtain such "all risk" coverage as a joint insured with one or more other public agencies located within or outside of the County. The County shall also obtain rental interruption insurance in an amount sufficient at all times to pay the total rent due under the Lease for a period adequate to cover the period of repair or replacement, but in no event shall such policy be in an amount less than one year of Base Rental Payments for the Equipment. The Lease provides that, with consent of the Insurer, the amount of required coverage may be reduced to a smaller amount if an insurance consultant or insurance broker retained by the County provides written advice to the Trustee that, based upon its evaluation of the County's maximum foreseeable loss in the event of a major conflagration, windstorm, explosion, riot flood or similar event, a specified smaller amount is believed to be reasonable given the nature of the risks insured and the proximity of the insured properties to each other. The County has received such written advice from its insurance broker. For additional information regarding the County's risk management programs, see "County Financial Information – Risk Management," "– Insurance Coverage Respecting Lease Obligations and Long-Term Loans," and see Appendix C – "Summary of Principal Legal Documents – The Lease – Maintenance; Taxes; Insurance and Other Charges – Insurance."

Abatement

Except to the extent of (i) amounts held by the Trustee in the Base Rental Payment Fund or the Certificate Reserve Fund; (ii) amounts received in respect of use and occupancy insurance; and (iii) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Certificates or Additional Certificates, during any period in which, by reason of material damage, destruction, title defect, or

condemnation, there is substantial interference with the use and possession by the County of any portion of the Equipment, rental payments due under the Lease with respect to the Equipment shall be abated to the extent that the annual fair rental value of the portion of the Equipment in respect of which there is no substantial interference is less than the annual Base Rental Payments and Additional Rental, in which case rental payments shall be abated only by an amount equal to the difference. In the event the County shall assign, transfer or Lease any or all of the Equipment or other rights hereunder, as permitted by the Lease, for purposes of determining the fair rental value available to pay Base Rental Payments and Additional Rental, annual fair rental value of the Equipment shall first be allocated to the Lease as provided in the Lease. Any abatement of rental payments shall not be considered an Event of Default under the Lease. Such abatement will continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Equipment so damaged, destroyed, defective or condemned. Obsolescence of any of the Equipment is not an event of abatement.

In the event that rental is abated, in whole or in part, pursuant to the Lease due to damage, destruction, title defect or condemnation of any part of the Equipment and the County is unable to repair, replace or rebuild the Equipment from the proceeds of insurance, if any, the County agrees to apply for and to use its best efforts to obtain any appropriate state and/or federal disaster relief in order to obtain funds to repair, replace or rebuild the Equipment.

Substitution

The County may amend the Lease to substitute other property and equipment (the "Substituted Equipment") for existing Equipment or to remove Equipment (including undivided interests therein) from the definition of Equipment upon compliance with all of the conditions set forth in the Lease. After a Substitution or Removal, the part of the Equipment for which the Substitution or Removal has been effected shall be released from the leasehold created under the Lease. See Appendix C – "Summary of Principal Legal Documents – The Lease – Equipment – Substitution or Removal of Equipment."

Additional Certificates

In addition to the Certificates to be executed and delivered under the Trust Agreement, the County may, from time to time, but only upon satisfaction of the conditions to the execution and delivery of Additional Certificates set forth in the Trust Agreement, enter into a Supplemental Trust Agreement to execute and deliver Additional Certificates on a parity with the Certificates and any previously executed and delivered Additional Certificates (unless otherwise provided in the related Supplemental Trust Agreement), the proceeds of which may be used for any lawful purpose by the County, as provided in the Supplemental Trust Agreement; *provided* that prior to or concurrently with the execution and delivery of the Additional Certificates, the County and the Corporation shall have entered into an amendment to the Lease providing for an increase in the Base Rental Payments to be made thereunder subject to the limitations set forth therein. See Appendix C – "Summary of Principal Legal Documents - Trust Agreement - Additional Certificates."

THE INSURER

The following information has been furnished by the Insurer for use in this Official Statement. Reference is made to Appendix F for a specimen of the Financial Guaranty Insurance Policy attached hereto.

Payment Pursuant to The Financial Guaranty Insurance Policy

Ambac Assurance Corporation (the "Insurer") has made a commitment to issue a Financial Guaranty Insurance Policy (the "Financial Guaranty Insurance Policy") relating to the Certificates effective as of the date

of delivery of the Certificates. Under the terms of the Financial Guaranty Insurance Policy, the Insurer will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Certificates which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Corporation (as such terms are defined in the Financial Guaranty Insurance Policy). The Insurer will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes due for Payment or within one business day following the date on which the Insurer shall have received notice of Nonpayment from the Trustee. The Financial Guaranty Insurance Policy will extend for the term of the Certificates and, once issued, cannot be canceled by the Insurer.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Certificates become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Certificates, the Insurer will remain obligated to pay principal of and interest with respect to outstanding Certificates on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Certificates, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a Certificate which has become Due for Payment and which is made to a Holder by or on behalf of the Corporation has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Certificates to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Certificates to be registered in the name of the Insurer to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to the Insurer.

Upon payment of the insurance benefits, the Insurer will become the owner of the Certificate, appurtenant coupon, if any, or right to payment of principal or interest with respect to such Certificate and will be fully subrogated to the surrendering Holder's rights to payment.

In the event that the Insurer were to become insolvent, any claims arising under the Financial Guaranty Insurance Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately \$4,988,000,000 (unaudited) and statutory capital of approximately \$2,963,000,000 (unaudited) as of September 30, 2001. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Certificates.

Ambac Assurance makes no representation regarding the Certificates or the advisability of investing in the Certificates and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "The Insurer."

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, New York, New York 10005. The Company's Common Stock is listed on the NYSE.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Commission (File No. 1-10777) are incorporated by reference in this Official Statement:

- 1) The Company's Current Report on Form 8-K dated January 24, 2001 and filed on January 24, 2001;

- 2) The Company's Current Report on Form 8-K dated March 19, 2001 and filed on March 19, 2001;
- 3) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and filed on March 28, 2001;
- 4) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2001 and filed on May 15, 2001;
- 5) The Company's Current Report on Form 8-K dated July 18, 2001 and filed on July 23, 2001;
- 6) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2001 and filed on August 10, 2001;
- 7) The Company's Current Report on Form 8-K dated and filed on September 17, 2001;
- 8) The Company's Current Report on Form 8-K dated and filed on September 19, 2001;
- 9) The Company's Current Report on Form 8-K dated and filed on October 22, 2001;
- 10) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2001 and filed on November 14, 2001; and
- 11) The Company's Current Report on Form 8-K dated January 23, 2002 and filed on January 25, 2002.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

Certificate Reserve Fund Surety Bond

The Trust Agreement requires the establishment of a Certificate Reserve Fund in an amount equal to \$2,670,402.06. In order to satisfy the Certificate Reserve Fund Requirement, concurrently with the execution and delivery of the Certificates the County will purchase from the Insurer a Reserve Fund Surety Bond. The Reserve Fund Surety Bond provides that upon the later of (i) one (1) day after receipt by Ambac Assurance of a demand for payment executed by the Trustee certifying that provision for the payment of principal of or interest with respect to the Certificates when due has not been made or (ii) the interest payment date specified in the Demand for Payment submitted to Ambac Assurance, Ambac Assurance will promptly deposit funds with the Paying Agent sufficient to enable the Paying Agent to make such payments due with respect to the Certificates, but in no event exceeding the Reserve Fund Surety Bond Coverage, as defined in the Reserve Fund Surety Bond.

Pursuant to the terms of the Reserve Fund Surety Bond, the Reserve Fund Surety Bond Coverage is automatically reduced to the extent of each payment made by Ambac Assurance under the terms of the Reserve Fund Surety Bond and the County is required to reimburse Ambac Assurance for any draws under the Reserve Fund Surety Bond with interest at a market rate. Upon such reimbursement, the Reserve Fund Surety Bond is reinstated to the extent of each principal reimbursement up to but not exceeding the Reserve Fund Surety Bond Coverage. The reimbursement obligation of the County is subordinate to the County's obligations with

respect to the Certificates.

In the event the amount on deposit, or credited to the Certificate Reserve Fund, exceeds the amount of the Reserve Fund Surety Bond, any draw on the Reserve Fund Surety Bond shall be made only after all the funds in the Certificate Reserve Fund have been expended. In the event that the amount on deposit in, or credited to, the Certificate Reserve Fund, in addition to the amount available under the Reserve Fund Surety Bond, includes amounts available under a letter of credit, insurance policy, Reserve Fund Surety Bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Reserve Fund Surety Bond and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency. The Trust Agreement provides that the Certificate Reserve Fund shall be replenished in the following priority: (i) principal and interest on the Reserve Fund Surety Bond shall be paid from first available Base Rental Payments; and (ii) after all such amounts are paid in full, amounts necessary to fund the Certificate Reserve Fund to the required level, after taking into account the amounts available under the Reserve Fund Surety Bond shall be deposited from next available Base Rental Payments.

The Reserve Fund Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Trustee or the Paying Agent.

In the event that Ambac Assurance were to become insolvent, any claims arising under the Reserve Fund Reserve Fund Surety Bond would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

THE COUNTY

The County of San Diego (the "County") is the southernmost major metropolitan area in the State of California. The County covers 4,255 square miles, extending 70 miles along the Pacific Coast from the Mexican border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange Counties form the northern boundary. The County is approximately the size of the State of Connecticut. The County's Fiscal Year 2001-02 budget is approximately \$3.8 billion.

The County was incorporated on February 18, 1850, and functions under a charter adopted in 1933, as subsequently amended from time to time. The County is governed by a five-member Board of Supervisors elected to four-year terms in district nonpartisan elections. The Board of Supervisors appoints the Chief Administrative Officer and the County Counsel. The Chief Administrative Officer appoints the Chief Financial Officer. Elected officials include the Assessor/Recorder/County Clerk, District Attorney, Sheriff and Treasurer-Tax Collector.

Many of the County's functions are required under County ordinances or by State or federal mandate. State and federally mandated programs, primarily in the social and health services areas, are directed to be maintained at certain minimum levels, which may, under some conditions, limit the County's ability to control its budget. However, under designated State and federal programs, eligible costs are subject to reimbursement according to specific guidelines.

The County is the delivery system for federal, state and local programs. The County provides a wide range of services to its residents including: regional services such as courts, probation, medical examiner, jails, elections and public health; health, welfare and human services such as mental health, senior citizen and child welfare services; basic local services such as planning, parks, libraries and Sheriff's patrol to the unincorporated area, and law enforcement by contract and libraries by city's request to incorporated cities; and infrastructure such as roads, waste disposal and flood control to the unincorporated area of the County.

COUNTY FINANCIAL INFORMATION

The following is a description of the County's budget process, current budget, historical budget information, changes in fund balance, balance sheets, its major revenues and expenditures, indebtedness, investments and certain other financial information relating to the County.

Ad Valorem Property Taxation

The following tables describe the assessed valuation of property within the County subject to taxation for fiscal year 1992-93 through fiscal year 2001-02, and the tax collections in such years:

COUNTY OF SAN DIEGO ASSESSED VALUATION OF PROPERTY SUBJECT TO AD VALOREM TAXATION Fiscal Years 1992-93 through 2001-02 (in Thousands)

<u>Fiscal Year</u>	<u>Land</u>	<u>Improvements</u>	<u>Personal Property</u>	<u>Gross Assessed Valuation</u>	<u>Exemption⁽¹⁾</u>	<u>Net Assessed Valuation for Tax Purposes⁽²⁾</u>
1992-93	\$56,942,666	\$ 83,395,166	\$ 7,050,615	\$147,388,447	\$3,011,676	\$144,376,771
1993-94	57,882,778	84,631,884	7,028,170	149,542,832	3,521,396	146,021,436
1994-95	58,065,632	85,628,280	7,175,750	150,869,662	3,683,231	147,186,431
1995-96	58,469,323	86,585,240	7,536,344	152,590,907	3,826,612	148,764,295
1996-97	58,743,000	86,763,943	7,404,271	152,911,214	3,799,409	149,111,805
1997-98	59,965,573	87,226,802	10,222,561	157,414,936	4,512,558	152,902,378
1998-99	63,633,576	94,172,901	10,557,494	168,363,971	4,655,382	163,708,589
1999-00	70,120,054	105,048,079	10,221,397	185,389,530	4,840,800	180,548,730
2000-01	76,745,341	112,696,090	11,598,967	201,040,398	5,322,920	195,717,478
2001-02	84,852,228	122,629,978	12,675,786	220,157,994	5,674,325	214,483,668

Source: County of San Diego Auditor and Controller.

⁽¹⁾ Exemption figures include veterans, church, welfare, religious, college and cemetery exemptions.

⁽²⁾ Net Assessed Valuation for Tax Purposes figures include local secured, unsecured, state unitary and redevelopment valuation.

The following table shows the approximate tax levied against the ten largest taxpayers in the County for Fiscal Year 2000-01.

**COUNTY OF SAN DIEGO
TEN LARGEST TAXPAYERS
Fiscal Year 2000-01**

<u>Property Owners</u>	<u>Business Area</u>	<u>Approximate Tax</u>
San Diego Gas & Electric Company	Gas & Electric Utility	\$21,951,721
Southern California Edison Co.	Electric Utility	18,668,147
Pacific Bell	Telephone Company	14,515,586
Qualcomm Inc.	Telecommunications	5,667,732
Equitable Life Assurance Society	Real Estate	4,144,430
Cabrillo Power	Electric Utility	3,582,098
Kilroy Realty LP	Real Estate	3,191,612
Prebys Conrad Trust	Real Estate	2,959,778
Spieker Properties	Real Estate	2,946,114
L-O Coronado Holding II, Inc.	Real Estate	2,921,603

Source: County of San Diego Auditor and Controller.

See "Risk Factors – Recent Developments Concerning Electricity" herein for a discussion of SDG&E and Edison's percentage of property tax payments with respect to the County's total General Fund property tax revenues.

Secured Tax Rolls Statistics

The following table sets forth the secured tax roll, the number of tax bills prepared, the total assessed value of property on the secured roll and the total property taxes levied on the secured roll for each of the last seven fiscal years, including an estimate for the fiscal year ending on June 30, 2001. The table also shows the number of bills and the amount of taxes due on them that were unpaid as of the end of each fiscal year shown, and the percentage of the taxes levied for each year that were uncollected as of the fiscal year end.

**COUNTY OF SAN DIEGO
SECURED TAX ROLL STATISTICS
Fiscal Years 1994-95 through 2000-01**

Fiscal Year	Total Bills	Total Assessed Value⁽¹⁾	Total Tax Amount⁽³⁾	Delinquent Tax Bills	Delinquent Tax Amount⁽³⁾	Delinquent Tax Amount as Percent of Tax Amount
1994-95	802,687	\$144,207,931,163	\$1,608,693,370	31,450	\$56,947,574	3.54%
1995-96	805,698	145,681,809,785	1,623,328,413	30,053	46,680,249	2.88
1996-97	815,818	146,000,629,437	1,640,179,294	28,924	37,476,117	2.28
1997-98	823,332	149,611,690,276	1,685,104,282	28,715	31,933,378	1.90
1998-99	831,497	160,102,387,349	1,791,871,717	33,484	32,513,581	1.60
1999-00	842,959	176,113,891,329	1,962,926,237	36,820	39,059,369	1.70
2000-01 ⁽⁴⁾	857,777	191,194,756,333	2,126,737,380	38,000	41,000,000	1.80

Source: County of San Diego Auditor and Controller.

⁽¹⁾ Total Assessed Value figures include local secured and state unitary valuation.

⁽²⁾ Amount excludes penalties.

⁽³⁾ Delinquent Tax Amounts represent the dollar value of tax due in the year shown that had not been collected as of June 30 of that year.

⁽⁴⁾ Total Bills, Total Assessed Value and Total Tax Amount figures are actual, remaining columns are estimated.

Liens and Redemption

Properties may be redeemed under an installment plan by paying current taxes plus 20% of the Redemption Amount five times over a period of five years. A delinquent taxpayer may enter into the installment plan at any time up to the June 30 occurring five years after the property becomes tax-defaulted. The Redemption Penalty continues to accrue interest at 1-1/2% per month on the unpaid balance of the Redemption Amount during the period of the installment plan. If taxes are unpaid for a period of five years or more after a parcel first becomes tax-defaulted (or if an installment plan is in place, taxes are unpaid at the end of the plan), the property is subject to sale by the County Treasurer-Tax Collector.

Before the 1990-91 fiscal year, the County bore the full cost of property assessment and revenue collection and distribution. State legislation enacted in 1990 allowed counties to charge cities, school districts, special districts and redevelopment agencies for their share of property tax administrative costs. Subsequent legislation permanently exempted school districts from paying property tax administrative fees. In the 2000-01 fiscal year, the County collected \$4,854,969 in such fees from cities, special districts and redevelopment agencies.

Assessed Valuations

The assessed valuation of property in the County is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported in compliance with the requirements of Proposition 13. Generally, property can be reappraised to market value only upon a change in ownership or completion of new construction. The assessed value of property that has not incurred a change of ownership or new construction must be adjusted annually to reflect inflation at a rate not to exceed 2% per year based on the California consumer price index. In the event of declining property value caused by substantial damage, destruction, economic or other factors, the assessed value must be reduced temporarily to reflect market value. For the definition of full cash value and more information on property tax limitations and adjustments, see "Limitations on Tax Revenues." For a discussion of recent litigation regarding general California county assessor practices, see "Risk Factors – Article XIII A Litigation."

The County Assessor determines and enrolls a value for each parcel of taxable real property in the County every year. The value review may result in a reduction in value. Taxpayers in the County also may appeal the determination of the County Assessor with respect to the assessed value of their property. The County has four assessment appeals boards (collectively, the "County Assessment Appeals Board") which meet two days per week to process the applications. Prior to 1992, assessment appeals filings in the County averaged less than 2,000 petitions annually. From 1992 to 1997, assessment appeals filings averaged 22,000 each year. With the turnaround in real estate values in 1998, appeals have declined. In the current fiscal year 2001-02, the County Assessor has processed approximately 2,600 appeals.

Teeter Plan

Beginning fiscal year 1993-94, the County adopted the alternative method of secured property tax apportionment available under Chapter 3, Part 8, Division 1, of the Revenue and Taxation Code of the State of California (also known as the "Teeter Plan"). This alternative method provides for funding each taxing entity included in the Teeter Plan with its total secured property taxes during the year the taxes are levied, including any amount uncollected at fiscal year end. Under this plan, the County assumes an obligation under a debenture or similar demand obligation to advance funds to cover expected delinquencies, and, by such financing, its general fund receives the full amount of secured property taxes levied each year and, therefore, no longer experiences delinquent taxes. In addition, the County's general fund benefits from future collections of penalties and interest on all delinquent taxes collected on behalf of participants in this alternative method of apportionment.

Upon adopting the Teeter Plan in 1993, the County was required to distribute to participating local agencies, 95% of the then accumulated, secured roll property tax delinquencies and to place the remaining 5% in the tax losses reserve fund, as described below. On November 20, 1995, the County issued its Teeter Obligation Taxable Commercial Paper Notes, Series A (the "Series A Teeter Notes") and its Teeter Obligation Tax-Exempt Commercial Paper Notes, Series B (the "Series B Teeter Notes," and together with the Series A Teeter Notes, the "Teeter Obligation Commercial Paper Notes"). The Series A Teeter Notes were initially delivered in a principal amount of \$25,900,000, which principal amount was not in excess of remaining uncollected delinquencies in property taxes and assessments due to the County and the other Revenue Districts for all fiscal years of the County ended on and prior to June 30, 1993 for which the County has provided funds pursuant to the Law, exclusive of Default Penalties thereon. Proceeds received from the initial sale of the Series A Teeter Notes were applied first to refund the principal amount of the Debenture issued to refund the County's obligation to fund the delinquencies in property taxes, assessments and other levies due to the County and the other Revenue Districts pursuant to the Law for all fiscal years of the County ended on and prior to June 30, 1993 (the "Initial Debenture"), with remaining amounts to pay costs in connection with the initial issuance of the Series A Teeter Notes. The Series B Teeter Notes were initially delivered in a principal amount of \$42,400,000, exclusive of Default Penalties thereon. Proceeds received from the initial sale of the Series B Teeter Notes were applied to refund the remaining Debentures attributable to the fiscal years ended June 30, 1994 and June 30, 1995 and to pay costs in connection with the initial issuance of the Series B Teeter Notes. There are no Series A Teeter Notes outstanding and the County will not issue any additional Series A Teeter Notes. Beginning in June 1996 and each June thereafter, including on June 19, 2001, the County has issued its Series B Teeter Notes to refund the demand obligations attributable to the fiscal year then ending and to pay costs in connection with the issuance of such Series B Teeter Notes. As of January 31, 2002, approximately \$43,856,000 aggregate principal amount of the Series B Notes were outstanding.

The Teeter Obligation Commercial Paper Notes and the interest thereon are on a parity in right of payment from the General Fund with all other obligations of the County payable from the General Fund, except County obligations to set aside amounts therefor and to repay tax and revenue anticipation notes which it may issue from time to time for working capital purposes in accordance with applicable law, which are senior

to the County's Commercial Paper Notes and other General Fund obligations, including the obligation to make Base Rental payments.

The Series B Teeter Notes have a first priority lien on Series B Taxes and certain amounts deposited in the Series B Pledge Fund held by the Fiscal Agent. "Series B Taxes" means (i) the right to collect any uncollected property taxes and assessments attributable to the fiscal years ended June 30, 1995 through June 30, 2001, and such other fiscal years, if any, as may be specified in a Supplemental Resolution, for which the County actually provided funding pursuant to Section 4705 of the California Revenue and Taxation Code (the "Law"), and Default Penalties thereon, (ii) all amounts received by the County upon the sale of property to recover such property taxes or assessments, (iii) all amounts received by the County upon redemption of properties for sale or previously sold to recover such property taxes or assessments, in each case to which the County is entitled as a consequence of electing to being governed by the Law, but not amounts evidencing or constituting interest or Redemption Penalties, and (iv) the right to collect interest and Redemption Penalties on such property taxes and assessments that are paid during the occurrence and continuance of an Event of Default under the Reimbursement Agreement dated June 22, 1998 by and between Landesbank Hessen-Thüringen Girozentrale (the "Bank") and the County (the "Reimbursement Agreement"), or as otherwise provided in the Reimbursement Agreement, but not including costs and fees paid as redemption and County administrative fees in connection with a parcel tax default in accordance with the Law. Series B Taxes do not include Other Taxes. "Other Taxes" means (i) the right to collect delinquent property taxes and assessments due to the County and other Revenue Districts and attributable to the fiscal years ending after June 30, 1996 (except for such amounts which are defined as "Series B Taxes" or otherwise excluded from the definition of "Other Taxes"), for which the County actually provides funding pursuant to the Law and Default Penalties thereon, (ii) all amounts received by the County upon the sale of property to recover such property taxes or assessments, and (iii) all amounts received by the County upon the redemption of properties for sale or previously sold to recover such property taxes or assessments, in each case to which the County is entitled as a consequence of electing to being governed by the Law, but not amounts evidencing or constituting interest or Redemption Penalties, and (iv) the right to collect interest and Redemption Penalties on such property taxes and assessments that are paid during the occurrence and continuance of an Event of Default under the Reimbursement Agreement or as otherwise provided in the Reimbursement Agreement, but not including costs and fees paid in as redemption and County administrative fees in connection with a parcel tax default in accordance with the Law.

Pursuant to the Law, the County is required to establish a tax losses reserve fund to cover losses which may occur in the amount of tax liens as a result of special sales of tax-defaulted property (*i.e.*, if the sale price of the property is less than the amount owed). The amount required to be on deposit in the tax losses reserve fund is, at the election of the County, one of the following amounts: (1) an amount not less than 1% of the total amount of taxes and assessments levied on the secured roll for a particular year for entities participating in the Teeter Plan, or (2) an amount not less than 25% of the total delinquent secured taxes and assessments calculated as of the end of the fiscal year for entities participating in the Teeter Plan. The County's tax losses reserve fund will be fully funded, in accordance with the County's election to be governed by the second alternative, at \$7.128 million as of June 30, 2001. Accordingly, any additional penalties and interest that otherwise would be credited to the tax losses reserve fund are credited to the County's General Fund.

Financial Statements

The following tables set forth the General Fund Combined Balance Sheets for fiscal years ending June 30, 2000 and June 30, 2001 and the General Fund Comparison of Revenues, Expenditures and Fund Balances for fiscal years 1997-98 through 2000-2001.

**COUNTY OF SAN DIEGO
GENERAL FUND
COMBINED BALANCE SHEET
June 30, 2000 and June 30, 2001
(In Thousands)**

ASSETS	2000	2001
Cash ⁽¹⁾	\$ 70,527	\$ 394,358
Cash with Fiscal Agent ⁽²⁾	136,477	186,043
Taxes Receivable	592	102
Accounts Receivable	196,910	158,558
Loans Receivable	689	689
Due from Other Funds ⁽²⁾⁽³⁾	153,651	198,025
Deposits with Others	—	—
Inventories-Materials and Supplies	7,687	8,070
TOTAL ASSETS	\$566,533	\$945,845
LIABILITIES AND EQUITIES		
Accounts Payable	\$ 32,298	\$ 35,011
Accrued Payroll	29,072	29,874
Amount Due for Tax and Revenue Anticipation Notes ⁽²⁾	131,607	179,147
Due to Other Funds	19,046	43,115
Deferred Revenue ⁽¹⁾	1,585	40,414
Fund Balance-Unavailable Encumbrances	91,888	99,848
Fund Balance-Unavailable Reserves ⁽¹⁾	14,889	167,243
Fund Balance-Available ⁽¹⁾	246,148	351,193
TOTAL LIABILITIES AND EQUITIES	\$566,533	\$945,845

Source: County of San Diego Auditor and Controller.

- (1) Pursuant to Governmental Accounting Standards Board Statement No. 33 ("GASB 33"), revenues from all nonexchange transactions are to be recognized when funds are earned. In a nonexchange transaction, a governmental entity gives (or receives) value without directly receiving (or giving) equal value in return. In prior years, those funds were included in the Trust and Agency Fund section of the financial statements. Thus, revenues were not earned when received, but when expenditures were incurred. See "2000-01 Fiscal Year Financial Summary" below.
- (2) Consistent with National Council on Governmental Accounting Interpretation No. 9, the liability for tax and revenue anticipation notes outstanding at June 30 is displayed in the General Fund and offset by a corresponding asset recorded as cash with fiscal agent representing the pledged amounts. In the prior year, pledged amounts were maintained in a separate pledge fund of the County.
- (3) Represents receivables and payables between General Fund and other County funds based on actual or estimated claims outstanding.

**COUNTY OF SAN DIEGO
GENERAL FUND
COMPARISON OF REVENUES, EXPENDITURES AND FUND BALANCES
For Fiscal Years 1997-98 through 2000-01
(in Thousands)**

<u>SOURCES OF FUNDS</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>
Fund Balances Reserved for Encumbrance	\$ 33,290	\$ 47,916	\$ 56,092	\$ 99,848
Unreserved Fund Balances	64,391	155,853	209,989	351,193
Taxes	284,970	302,044	314,570	340,769
Licenses, Permits and Franchises	21,034	22,087	22,233	24,751
Fines, Forfeitures and Penalties	21,849	19,267	27,406	29,511
Use of Money and Property	26,236	21,478	25,284	39,176
Aid from Other Government Agencies	1,344,981	1,289,314	1,451,260	1,233,794
Charges for Current Services	174,468	191,123	189,365	198,522
Other Revenue	15,966	27,485	25,052	31,905
Sale of Fixed Assets	—	—	900	14
Operating Transfers-in ⁽¹⁾	25,583	2,877	2,989	360,791
Issuance of Lease Purchases ⁽²⁾	4,226	3,856	1,654	—
TOTAL SOURCES	\$2,016,994	\$2,083,300	\$2,326,794	\$2,710,274

USES OF FUNDS

General	\$ 181,031	\$ 182,528	\$ 147,684	\$ 134,357
Public Protection	535,863	564,060	650,705	706,978
Public Ways and Facilities	1,458	1,964	1,742	2,819
Health and Sanitation	281,363	304,631	355,982	432,210
Public Assistance	759,389	645,312	681,751	692,983
Education	270	259	383	501
Recreation and Cultural Services	8,094	8,459	10,836	11,833
Capital Outlay	4,226	3,856	1,654	—
Debt Service	14,249	10,482	7,657	12,581
Operating Transfers-out	85,367	86,384	124,641	135,296
TOTAL USES	\$1,871,310	\$1,807,935	\$1,983,035	\$2,129,558

Source: County of San Diego, Auditor and Controller.

⁽¹⁾ Accounting method change of the Special Revenue funds for the Safety Augmentation Sales Tax (Proposition 172), Health and Social Services' Realignment monies and the ongoing tobacco tax (Proposition 10) receipts. Revenues from these three sources are recognized in the Special Revenue funds and treated as operating transfers when moved to the General Fund to reimburse expenses incurred.

⁽²⁾ Excludes refundings.

2000-01 Fiscal Year Financial Summary

In fiscal year 2000-01, the financial position of the General Fund improved due to results of operations, including increased revenues, operational efficiencies, and fiscally sound use of management and other County reserves. In addition, changes in accounting for certain revenues under Governmental Accounting Standards Board Statement No. 33 ("GASB 33") had a substantial impact on the presentation of the County's financial statements.

Changes in Accounting Standards. A variety of rules setting forth changes to financial calculations applicable to the County and other governmental entities were recently implemented by GASB. One rule, GASB 33, "Accounting and Financial Reporting for Nonexchange Transactions," establishes new standards

for reporting the results of grants and other categories of government funding sources. The County receives from the State and federal government a variety of funding that usually has substantial restrictions of time and/or purpose on its use. Time restrictions may result in deferred revenue. Purpose restrictions do not affect revenue recognition but do result in a reservation of fund balance if the funding is not used for the purpose intended within the fiscal year that the funding was received. In prior years, grants and other categories of government funding sources were maintained in trust as agency funds until such time as they reimbursed the General Fund or other operating funds. Thus, revenues were not recognized until expenditures occurred. Under GASB 33, most grants and other categories of government funding sources are recognized as revenues when received.

Combined Balance Sheet. GASB 33 significantly affects cash and fund balance of the General Fund. Equity in pooled cash and investments that was previously classified in certain agency funds is now consolidated with the General Fund. Overall, this category increased by \$323.7 million, or 475%. Of that increase, \$294.3 million is due to adoption of the new standard and \$29.4 million is due to operations. The General Fund's fund balance increased substantially due to a restatement of Fiscal Year 1999-2000 ending balance and the adoption of GASB 33 during fiscal year 2000-01.

Comparison of Revenues, Expenditures and Fund Balances. Adoption of GASB 33 resulted in the reclassification of approximately \$359.3 million in certain General Fund revenues. Three significant forms of State funding, the Safety Augmentation Sales Tax, Realignment monies, and the "Proposition 10" tobacco tax receipts, were previously shown as "Aid from other Governmental Agencies". These ongoing funding sources have been established as Special Revenue Funds and their revenues are now reported as "Operating Transfers-In".

The following table sets forth general fund balances adjusted for the implementation of GASB 33.

General Fund Balances Adjusted for GASB 33
(in Thousands)

Combined Balance Sheet Category	June 30, 2001	Effect of GASB 33	June 30, 2001 (as adjusted)	June 30, 2000
Fund Balance-Unavailable Reserves	\$167,243	\$152,173	\$ 15,070	\$ 14,889
Fund Balance-Available	<u>351,193</u>	<u>26,604</u>	<u>324,589</u>	<u>246,148</u>
Total	<u>\$518,436</u>	<u>\$178,777</u>	<u>\$339,659</u>	<u>\$261,037</u>

Source: County of San Diego Auditor and Controller.

Results of Operations. After adjustments for GASB 33, County operations resulted in available fund balance of \$324.6 million, an increase of \$78.5 million from the previous year. This increase is due substantially to increased revenues combined with contained growth in the costs of providing County products and services. Highlights of the revenue increases include: (i) higher tax receipts of \$26.2 million, of which \$19 million was current secured and unsecured property taxes, (ii) increased revenue from the use of money and property of \$13.9 million, with higher interest earnings of \$9.6 million due to unexpectedly high investment balances, and (iii) Aid from Other Government Agencies. Although the category of Aid from Other Government Agencies shows an overall decrease due to GASB 33 reclassifications, one component, State Vehicle License Fees, increased \$18.7 million. Additionally, the State increased certain discretionary one-time funding by approximately \$2.4 million.

General Fund Budget

The County General Fund finances the legally authorized activities of the County not provided for in other restricted funds. General Fund revenues are derived from such sources as taxes, licenses and permits, fines, forfeitures and penalties, use of money and property, aid from other governmental agencies, charges for current services and other revenue. General Fund expenditure and encumbrances are classified by the functions of public safety, health and human services, land use and environment, community services, finance and general government and other.

The Board of Supervisors is required by State law to adopt a balanced annual budget no later than September 30 of each year. The Board of Supervisors may, by resolution, extend the date of adoption of a balanced budget to October 2. The Board of Supervisors is further required to set tax rates by September 1 in accordance with Article XIII A of the California Constitution. See "County Financial Information – Ad Valorem Property Taxation" herein.

Since the budget must be in balance, any shortfall in revenues requires a reduction in appropriations. No increase in the aggregate appropriations can be made after the final budget has been adopted unless the County has received written certification of additional revenue from the sources of such revenue.

In order to ensure that the budget remains in balance throughout the fiscal year, quarterly reviews are made covering actual receipts and expenditures. In the event of any shortfall in projected revenue, immediate steps are taken to reduce appropriations. Appropriation reductions would be achieved through a combination of hiring freezes, employee layoffs, and freezes on the purchase of equipment, services and supplies. California counties are not permitted by State law to impose fees to raise general revenue, but only to recover the costs of regulation or provision of services. The Chief Financial Officer is responsible for monitoring and reporting expenditures within budgeted appropriations.

2001-02 Fiscal Year Budget

The County's adopted budget (the "Budget") for Fiscal Year 2001-02 is \$2.5 billion or 9.1% higher than that of the previous year. Key assumptions and components of the Budget included the following:

1. The gross regional product will experience growth of approximately 3.5%.
2. County unemployment rates will increase to approximately 3.5%, below both the national and State levels.
3. General purpose revenues (revenues not tied to a specific County program) were budgeted to increase by \$28.7 million, to \$568.8 million. At the end of the second quarter, the projection is slightly higher, \$580.3 million, due to higher than expected tax receipts in a number of categories. Property taxes are projected to show a favorable variance due to higher than expected assessments. The total Local Assessed Valuation was assumed to be 9.0% for budgetary purposes and showed an actual increase of 9.7%. Sales and use taxes receipts remain strong for the San Diego economy. For budget purposes, the rate of growth was assumed to be flat; however, actual revenues through January 2002 are 4.8% higher than last year.
4. Prudent levels of management and operational reserves were established in the Budget. A portion of the management reserves will be used during the year for one-time expenditures. The operational reserves are not expected to be used during this year.

Economic and other events of this Fiscal Year have affected governmental revenue and expenditure trends and those trends are expected to continue through all or part of 2002, including the following:

1. National, State, and local economies have experienced slow or negative growth. The San Diego economy has to date fared better than either of the other two; however, economic conditions and potential changes in revenues or in demand for County services are constantly monitored.
2. The State is experiencing a budget deficit in Fiscal Year 2001-02 and is entering the Fiscal Year 2002-03 budget cycle with the same expectations. The effects of the deficit resolution on local California governments is not yet clear.

The County adopted its Fiscal Year 2001-02 budget on July 31, 2001. The following table shows the County's General Fund budgets for Fiscal Years 2000-01 and 2001-02.

**COUNTY OF SAN DIEGO
GENERAL FUND BUDGET
Fiscal Year 2000-01 and Fiscal Year 2001-02
(in Thousands)**

	Final Budget <u>2000-01</u>	Final Budget <u>2001-02</u>
<u>APPROPRIATIONS</u>		
Public Safety	\$ 707,705	\$ 767,349
Health & Human Services	1,207,134	1,340,569
Land Use & Environment	93,203	84,717
Community Services	29,268	34,224
Finance and General Government and Other	257,230	272,298
Appropriation for Contingencies and Designation	<u>11,000</u>	<u>16,600</u>
Total Appropriations	<u>\$2,305,540</u>	<u>\$2,515,757</u>
<u>REVENUES</u>		
Current Property Taxes	\$ 283,502	\$ 299,105
Taxes other than Current Property Taxes	54,103	55,901
Licenses, Permits & Franchises	22,872	25,881
Fines & Forfeitures	27,599	26,824
Use of Money & Property	23,645	20,822
Aid from other Government Agencies	1,591,163	1,349,780
Charges for Current Service	184,749	188,346
Miscellaneous Revenues and Other Financing Sources*	<u>45,522</u>	<u>457,606</u>
Total Revenues	<u>\$2,233,155</u>	<u>\$2,424,265</u>
Estimated Fund Balance Available	<u>72,385</u>	<u>91,492</u>
Total Available Financing	<u>\$2,305,540</u>	<u>\$2,515,757</u>

Source: County of San Diego Auditor and Controller.

* "Miscellaneous Revenues and Other Financing Sources" for Fiscal Year 2001-02 incorporates the conversion of Realignment and Proposition 172 safety revenues from "Aid from other Government Agencies" to "Special Revenues."

Retirement Program

The employees retirement system of the County, established July 1, 1939 under provisions of the County Employees' Retirement Law of 1937, is a contributory type plan covering substantially all permanent employees. The plan is integrated with the federal Social Security System. For Fiscal Year 2000-01, contributions to the retirement fund amounted to approximately \$41.1 million by the County and \$10.8 million by employee members. There were 16,377 active members, 8,921 retired members and 3,291 deferred members as of June 30, 2001.

The retirement system operates on a fiscal year basis and has an actuarial valuation prepared annually. At June 30, 2001, the date of the most recent actuarial valuation report, the actuarial accrued liability was approximately \$3.5 billion and was approximately 107% funded. The County is expected to receive a credit of approximately \$42 million as a result of overfunding of its actuarial liability. A credit status has existed commencing with fiscal year 1998-99; however, the availability of any such credit in future years may be impacted by market conditions and pending retirement benefit enhancements. The County's method for computing actual contributions (level percentages) results in the employer contribution remaining approximately level from generation to generation as a percentage of the active employee payroll. The actuarially computed liabilities are based upon assumptions, which make provisions for future salary increases resulting from inflationary factors. The level of funding available for the retirement system is a function of a number of factors, including duration of employment, assumptions regarding costs of living and the performance of the stock market. Additional costs resulting from retiree health insurance, certain cost of living adjustments (COLAs) and death benefits are paid on a current basis from surplus investment earnings in the fund.

In the case of *Ventura County Deputy Sheriff's Association v. Board of Retirement of Ventura County Employees' Retirement Association ("Ventura")*, the California Supreme Court held that certain payments made by a county in excess of basic salary payments to employees are to be included in the definition of final compensation within the meaning of the Retirement Law. Consequently, the County may be required to increase the amount of payments to the retirement fund for the benefit of its employees in the current fiscal year and future fiscal years. The California Supreme Court did not determine whether its holding in the *Ventura* case was to be applied retroactively. In a coordination proceeding which included all other counties and retirement systems' in California that have unsettled claims, including the County, the County of San Francisco Superior Court, held that *Ventura* is to be applied retroactively for a period beginning three years prior to the filing of a complaint to enforce *Ventura*. The potential unfunded liability of the County for the retroactive three-year period from October 1, 1994 to October 1, 1997 for the pay categories set forth in *Ventura* is not in excess of \$5.4 million. In addition, the County estimates, that the potential financial impact of a prospective application of *Ventura* is approximately \$5 million.

In 1998 there were three lawsuits filed against the San Diego County Employees Retirement Association. The cases are Stapel (the "Stapel case"), Scheidel (the "Scheidel case"), and Deputy Sheriffs' Association (the "DSA case"). The County of San Diego is the real party interest in each of these matters. In addition to requesting that *Ventura's* holding be retroactive, these cases request an expansion of the terms of final compensation under the Retirement Law. The Stapel case requested benefits be included in retirement calculations for members who retired after October 1, 1994. The Scheidel case requested inclusion of benefits for retired allowance calculations back to members' retirement dates before October 1, 1994. The DSA case requested inclusion of the additional benefits in retirement calculations after October 1, 1994 for retirees and active employees. These cases were consolidated into a coordinated proceeding in the County of San Francisco Superior Court.

On February 14, 2002, the County of San Francisco Superior Court approved a settlement in the above described lawsuits. In consideration for the dismissal of these lawsuits, the San Diego County Employees Retirement Association and the County agreed to increase benefits for active and retired employees. Formal judgment has not yet been entered, and the judgment remains subject to appeal by class members who objected and remain dissatisfied. In addition, the County resolved other matters which arose as a result of the *Ventura* case through the enhancement of retirement benefits for all of its general and safety members, as well as existing retirees, under its labor agreements that were approved by the County in July 2001. As of January 31, 2002, the total estimated accrued unfunded liability from these additional benefits was approximately \$870.8 million. The County expects to issue pension obligation bonds to fund a portion of the increased unfunded liability that resulted from these settlements and labor agreements. See "Recent and Anticipated Financings" herein.

Shown below are the County contributions for recent fiscal years and the level of contributions to the retirement system for fiscal year 2001-02.

**COUNTY OF SAN DIEGO
EMPLOYER CONTRIBUTIONS TO RETIREMENT SYSTEM**

1992-93	\$ 97,499,000
1993-94	89,267,603
1994-95	80,992,355
1995-96 ⁽¹⁾	103,692,355
1996-97 ⁽¹⁾	101,609,873
1997-98 ⁽¹⁾	107,254,394
1998-99 ⁽¹⁾⁽²⁾	80,936,548
1999-00 ⁽¹⁾⁽²⁾	85,155,720
2000-01 ⁽¹⁾⁽²⁾	90,694,883
2001-02 ⁽¹⁾⁽²⁾	99,652,980

Source: County of San Diego Auditor and Controller.

⁽¹⁾ Includes principal and interest payments on the County's Taxable Pension Obligation Bonds.

⁽²⁾ Reflects credit from County Retirement System.

Investments of the retirement system are recorded at fair value, net of brokerage commissions and other costs normally incurred in a sale, based upon closing sale proceeds reported on recognized securities exchanges on the last business day of the period, or for listed securities having no sales reported and for unlisted securities, based upon last reported bid prices. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies ("S&P") presently rates the County's retirement system's ability to meet its financial commitments "AA+." The approximate fair value of all investments held by the retirement system, as of June 30, 2001 was as follows:

Domestic equity	\$1,654,200,000
International equity	894,400,000
Fixed Income	931,200,000
Real Estate	250,700,000
Other	<u>86,400,000</u>
Total Investments	<u>\$3,816,900,000</u>

On December 2, 2001, Enron Corp. ("Enron") filed for voluntary protection under Chapter 11 of the federal Bankruptcy Code. The Enron bankruptcy proceeding has not had a material adverse impact on the County's debt security investments in the retirement system.

Risk Management

The County is required to obtain and maintain public liability insurance and workers' compensation insurance under various types of its financing lease obligations. These financing leases generally require public liability insurance to be issued by a responsible carrier or be in the form of self-insurance or self-funding to cover claims for damages including death, personal injury, bodily injury, or property damage arising from operations involving the facilities covered by such leases, affording protection with a combined single limit loss of not less than \$5,000,000 per occurrence with respect to bodily injury, death or property damage liability. In addition, these financing leases generally require the County to obtain and maintain workers' compensation insurance issued by a responsible carrier or in the form of self-insurance or self-funding to cover all persons employed by the County in connection with the facilities covered by such leases and to cover full liability for compensation under the act requiring workers' compensation. Any self-insurance or self-funding for these risks is subject to certain conditions, including, but not limited to, providing evidence of self-insurance and of appropriation of such funds as may be necessary for self-funding and annual certification to the trustee with respect to such financing leases by the County's risk management officer or an independent insurance consultant of the sufficiency of coverage.

The County does not carry liability insurance for premises liability, medical malpractice, errors and omissions, false arrest, general liability or primary workers' compensation. Accordingly, the County may not be in compliance with the insurance requirements of its financing lease obligations, although the County does purchase an excess workers' compensation policy with a \$1,000,000 self insured retention. In accordance with Government Accounting Standards Board Statement 10, *"Accounting and Financial Reporting for Risk Financing and Relating Insurance Items,"* the County established an Internal Service Fund ("ISF") to report all of its uninsured risk management activities. In 1996, the County adopted a ten-year phased funding program to fund the unfunded liability in its ISF. The County has deposited the following amounts into its ISF: \$2 million in Fiscal Year 1996-1997, \$4 million in Fiscal Year 1997-1998, \$6 million in Fiscal Year 1998-99, \$8 million in Fiscal Year 1999-2000 and \$8 million in Fiscal Year 2000-01. An actuarial evaluation estimated that at June 30, 2001 claims of \$84.1 million, including \$12 million in public liability and \$72.1 million in workers' compensation, were probable, resulting in a financial loss to the County. This estimate was based partially on the experience of similar governmental entities as well as the loss profile of the County. As of June 30, 2001, the ISF had an ending balance of \$39.5 million, resulting in an unfunded liability of approximately \$44.6 million. The estimate of claims liabilities were recorded in the ISF. In addition, there is a potential gross liability of approximately \$19 million that could result if unfavorable adjudication are rendered in pending legal actions. The County currently intends to deposit \$8 million in Fiscal Year 2001-02 and \$4 million annually thereafter until the full unfunded liability in the ISF is eliminated.

County of San Diego Employees

The following table lists the number of County employees for the years 1992 through 2001:

TOTAL COUNTY EMPLOYEES

<u>June 30</u>	<u>Total Employees</u>
1992	17,022
1993	16,999
1994	17,256
1995	16,470
1996	17,626
1997	17,623
1998	17,775
1999	18,049
2000	18,866
2001	19,420

Source: County of San Diego Auditor and Controller.

County employees are represented by eight unions representing 22 bargaining units. The unions represent approximately 85% of the County's approximately 19,000 employees and include the San Diego County Deputy Sheriffs' Association; Social Services Union, Local 535, SEIU, AFL-CIO; Deputy District Attorneys Association; San Diego County Probation Officers' Association, SEIU, Local 2028, AFL-CIO and CLC; District Attorney Investigators Association; the Service Employees International Union, Local 2028, AFL-CIO and CLC; Deputy County Counsels Association and the Public Defender Attorneys' Association of San Diego County.

Labor agreements are in place for most unions through June 30, 2006, covering approximately 16,000 employees. The Deputy Sheriffs' Association and the District Attorney Investigators' Association have agreements through June 21, 2007. The labor contracts for the Deputy District Attorneys' Association and the Public Defenders' Association expired on June 30, 2001. The County Board of Supervisors imposed settlements on these two labor unions; negotiations will begin again with these two unions on June 30, 2002. The remainder of all employees are unrepresented.

Short-Term Borrowing

On June 8, 2001, the County sold its 2001-02 Tax and Revenue Anticipation Notes Series 2002 (the "2002 TRANs") on behalf of the County and certain school districts within the County (the "Participants") in an aggregate principal amount of \$225,155,000, of which \$150,000,000 represent notes to be issued by the County. The 2002 TRANs were executed and delivered on July 3, 2001 and are scheduled to mature on June 28, 2002. The 2002 TRANs were issued for the purpose of financing seasonal cash flow requirements for general fund expenditures during the fiscal year ending June 30, 2002. The 2002 TRANs are limited obligations of the County and each respective Participant but are payable only out of taxes, income, revenue, cash receipts and other moneys of the County attributable to the Fiscal Year 2001-02 and legally available for payment thereof (exclusive of any moneys required to be used to repay any Treasurer's Loan and exclusive of moneys pledged to the Teeter Obligation Commercial Paper Notes, as described herein) ("Unrestricted Revenues").

In addition, the County has authorized and issued its Series B Teeter Notes as taxable and tax-exempt obligations, secured by (i) a pledge of all amounts received by the County as payments for delinquent property taxes associated with the Teeter Plan levied in all fiscal years ended before June 30, 2001 and (ii) all amounts received by the County upon the sale of property to recover such property taxes, assessments and other levies, or upon redemption of properties previously sold to recover such property taxes, assessments or other levies. The Teeter Obligation Commercial Paper Notes may also be payable from the General Fund of the County. The amounts pledged to the Teeter Obligation Commercial Paper Notes will not be available to pay the 2002 TRAns and the amounts pledged to pay the 2002 TRAns will not be available to pay the Teeter Obligation Commercial Paper Notes. See "Security for and Sources of Payment of the Certificates" and "County Financial Information – The Teeter Plan."

During the 1990's, the County has utilized Treasurer's Loans from time to time for various purposes, including the finance of County library programs and other County programs. The largest Treasurer's Loan in the last five years was in fiscal year 1996-97 for \$25,000,000. Should the County find it necessary to use a Treasurer's Loan, then such borrowing, pursuant to the California Constitution, must be repaid from the first County revenues received thereafter before any other obligation, including the Notes, is paid from such revenues.

General Obligation Debt, Lease Obligations and Long-Term Loans

The County has no outstanding general obligation bonds. Starting with the financing of the El Cajon Administrative Building in 1955, the County has made use of various lease arrangements with joint powers authorities, a nonprofit corporation, the County Employees' Retirement Association, a redevelopment agency and private parties to finance capital project needs. Under these arrangements, the financing entity usually constructs or acquires capital assets with the proceeds of lease revenue bonds or certificates of participation and then leases the asset or assets to the County. As of June 30, 2001, annual long-term lease payments of the County for Fiscal Year 2000-01 amounted to approximately \$127 million and there was approximately \$864 million aggregate principal amount of long-term general fund obligations outstanding. The annual long-term lease payments for the obligations will aggregate \$120 million in Fiscal Year 2001-02. A summary of general fund long-term obligations payable from the general fund is presented as follows:

COUNTY OF SAN DIEGO SUMMARY OF GENERAL LONG-TERM OBLIGATIONS PAYABLE FROM THE GENERAL FUND As of November 1, 2001 (in Thousands)

CERTIFICATES OF PARTICIPATION	Interest Rates	Final Maturity Dates	Original Principal Amounts	Principal Amounts Outstanding
San Diego County Capital Asset Leasing Corporation (SANCAL)				
1993 Series A, issued March 1993	3.00-5.75%	2013	\$ 7,640	\$ 5,415
1993 Master Refunding, issued May 1993	2.50-5.625	2012	203,400	121,945
1993 Vista Building, issued March 1993	3.25-5.10	2007	26,085	14,260
1996 Regional Communication System, issued May 1996	4.30-5.50	2018	52,230	41,630
1996 North & East County Courthouse, issued December 1996	4.30-5.60	2019	37,690	35,525
1997 Master Refunding, issued June 1997	4.00-4.80	2004	28,035	13,205
1997 Jail Refunding, issued July 1997	4.00-5.42	2025	80,675	73,745
1998 Downtown Courthouse Refunding, issued December 1998	4.00-4.94	2023	73,115	65,655
1999 East Mesa, issued September 1999	3.60-4.75	2009	15,010	12,475
2000 Information Technology System, issued May 2000	4.50-5.125	2010	51,520	47,730
2001 Interim Justice Refunding, issued June 2001	Variable	2007	18,400	18,400
Total SANCAL			\$ <u>593,800</u>	\$ <u>449,985</u>
SAN DIEGO REGIONAL BUILDING AUTHORITY				
2001 MTS Tower Refunding, issued September 2001	2.150-5.25%	2020	\$ 36,960	\$ 36,960
Total COPs			\$ <u>630,760</u>	\$ <u>486,945</u>
THIRD PARTY FINANCING LEASES:				
Other capitalized leases with various beginning dates from December 1991 to the present	4.24-8.00%	2000-07	<u>58,516</u>	<u>37,490</u>
Total Capitalized Leases			\$ <u>58,516</u>	\$ <u>37,490</u>
PENSION BONDS				
San Diego County Pension Obligation Bonds, Series A, Issued February 1994	4.70-6.60%	2008	\$ 430,430	\$ 282,900
Total Pension Bonds			\$ <u>430,430</u>	\$ <u>282,900</u>
TOTAL GENERAL LONG-TERM DEBT			\$ <u>1,119,706</u>	\$ <u>807,335</u>

Source: County of San Diego Auditor and Controller.

Recent Financing and Anticipated Financings

In January 2002, the County issued approximately \$467 million tobacco settlement revenue bonds to fund endowments to pay the cost of certain health related programs and capital projects. In connection with this financing, the County sold all of its right, title and interest in and to a portion of the payments required to be made to the County under the Master Settlement Agreement entered into by participating cigarette manufacturers. These bonds are not a debt of the County but are limited obligations of the Tobacco Securitization Authority of Southern California (the "Authority"), a joint powers authority organized by the County and the County of Sacramento. No funds of the County are pledged or otherwise available to the payment of the principal of or interest on these bonds. The County will use the proceeds of the bonds to fund new health care programs. Such funding is not expected to impact available funds for existing health-related programs of the County.

The County expects to issue certificates of participation through the San Diego County Capital Asset Leasing Corporation in the approximate aggregate principal of \$65 million to finance reconstruction of Edgemoor Hospital, a skilled-nursing facility located in Santee, California, in August 2002. In addition, the County expects to issue pension obligation bonds to fund a portion of the unfunded liability that resulted from lawsuit settlements and labor agreements agreed to as a result of the *Ventura* case. See "County Financial Information – Retirement Program" herein.

Direct and Overlapping Debt

The County contains numerous municipalities, school districts and special purpose districts such as water districts, all of which have issued general obligation bonds. Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics Inc. as of August 14, 2001. The Debt Report is included for general information purposes only. The County has not reviewed the Debt Report for completeness or accuracy and makes no representations in connection therewith.

The Debt Report generally includes long term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the County in whole or in part. Such long term obligations generally are not payable from revenues of the County (except as indicated) nor are they necessarily obligations secured by land within the County. In many cases long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

COUNTY OF SAN DIEGO
ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT
(as of March 1, 2002)

2001-02 Assessed Valuation: \$214,483,668,959 (includes unitary utility valuation)
Redevelopment Incremental Valuation: 13,289,406,770
Adjusted Assessed Valuation: \$201,194,262,189

OVERLAPPING TAX AND ASSESSMENT DEBT:

	% Applicable	Debt 3-1-02
Metropolitan Water District	17.743%	\$ 89,260,597
San Diego County Water Authority	100.	3,220,000
Southwestern Community College District	100.	40,000,000
San Diego Unified School District	100.	489,989,881
San Diego Unified School District Lease Tax Obligations	100.	129,125,000
San Marcos Unified School District School Facilities Improvement District No. 1	100.	20,343,019
Unified School Districts	100.	71,863,810
Union High School Districts	100.	107,735,117
School Districts	100.	163,368,051
Otay Municipal Water District Improvement Districts	100.	11,530,000
Other Municipal Water Districts	100.	2,390,000
City of San Diego	100.	16,920,000
Other Cities	100.	4,245,000
San Diego Open Space Park Facilities District	100.	41,175,000
Other Special Districts	100.	1,620,000
Community Facilities Districts	100.	725,344,282
1915 Act Bonds (Estimated)	100.	232,025,904
TOTAL GROSS OVERLAPPING TAX AND ASSESSMENT DEBT		\$2,150,155,661
Less: San Diego Open Space Park Facilities District (100% self-supporting)		<u>41,175,000</u>
TOTAL NET OVERLAPPING TAX AND ASSESSMENT DEBT		\$2,108,980,661

DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:

	100. %	\$	
San Diego County General Fund Obligations	100.	507,606,062	(1)
San Diego County Pension Obligations	100.	282,900,000	
San Diego County Superintendent of School Obligations	100.	2,122,500	
Community College District Certificates of Participation	100.	75,715,000	
San Diego Unified School District Certificates of Participation	100.	46,070,000	
Other Unified School District Certificates of Participation	100.	85,224,005	
High School District Certificates of Participation	100.	53,816,500	
School District Certificates of Participation	100.	109,187,155	
Municipal Water District Certificates of Participation	100.	29,800,000	
City of San Diego General Fund Obligations	100.	378,095,000	
City of Escondido General Fund Obligations	100.	92,572,847	
Other City General Fund Obligations	100.	308,640,920	
San Miguel Consolidated Fire Protection District Certificates of Participation	100.	10,505,000	
Fallbrook Sanitary District Certificates of Participation	100.	10,780,000	
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$1,993,034,989	
Less: Otay Municipal Water District Certificates of Participation (100% self-supporting)		26,665,000	
Grossmont Union High School District Certificates of Participation (100% self-supporting from tax increment revenues)		7,389,000	
City of Oceanside Certificates of Participation		<u>2,965,000</u>	
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$1,956,015,989	
GROSS COMBINED TOTAL DEBT		\$4,143,190,650	(2)
NET COMBINED TOTAL DEBT		\$4,064,996,650	

(1) Excludes certificates of participation to be sold.

(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2001-02 Assessed Valuation:

Total Gross Direct and Overlapping Tax and Assessment Debt.....	1.00%
Total Net Direct and Overlapping Tax and Assessment Debt.....	0.98%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$790,506,062)	0.39%
Gross Combined Total Debt	2.06%
Net Combined Total Debt	2.02%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/01: \$4,330,263

Source: California Municipal Statistics.

SUPPLEMENTAL FINANCIAL INFORMATION

The following information concerning the State of California's budgets has been obtained from publicly available information which the County believes to be reliable; however, the County takes no responsibility as to the accuracy or completeness thereof and has not independently verified such information.

State Budget for Fiscal Year 2001-02

Governor Davis signed the 2001-02 State Budget on July 26, 2001. The total spending plan of \$103.3 billion represents a \$2.4 billion increase from the 2000-01 State Budget. Approximately \$78.8 billion of the spending plan relies on the General Fund, \$21.3 billion on special funds, and \$3.2 billion on bond funds. As a result of a slowdown in California's economy and state revenues, the final 2001-02 State Budget reflects significant cutbacks from the spending levels proposed by the Governor in January 2001, except for increases in K-12 spending. The 2001-02 State Budget also includes certain expansions to health programs described below, tax relief provisions for property tax assistance to senior citizens and for agricultural businesses and rural residents consisting of certain exemptions from the sales and use tax for agricultural and rural activities. The spending plan assumes that the General Fund monies spent for electricity purchases in 2000 and 2001 will be reimbursed from revenue bond proceeds.

The 2000-01 fiscal year ended with a reserve of \$6.3 billion. In Fiscal Year 2001-02, revenues are projected to fall by 3.7 percent from the prior year to \$75.1 billion. A decline in capital gains and stock market activity sectors and the general slowdown in statewide economic activity caused a decrease in revenues from Fiscal Year 2000-01. The year-end reserve is projected to decline to \$2.6 billion, or slightly below 3.5 percent of total General Fund revenues. Expenditures are estimated to be \$78.8 billion, a 1.7 percent decline from the prior year.

The principal features of the 2001-02 State Budget are summarized below:

1. The 2001-02 State Budget provides approximately \$122 million (\$115 million General Fund) in tax relief in Fiscal Year 2001-02. The main provision is a permanent 45 percent increase in the senior citizens' property tax assistance program. The 2001-02 State Budget also contains an agricultural and rural tax relief package, which includes sales tax exemptions for agricultural and forestry equipment, liquified petroleum gas, and diesel fuel used for agricultural purposes. In addition, the 2001-02 State Budget lowers the reserve threshold from 4 percent to 3 percent of annual revenues needed to impose one-quarter cent of the state's sales tax adopted in 1991.
2. The 2001-02 State Budget includes full funding for inflation and enrollment growth in K-12, as well as targeted increases for low-performing schools, expanded child care, a settlement of the special education lawsuit, revenue limit equalization, and before and after school programs. In higher education, the 2001-02 State Budget provides full funding for enrollment growth, avoids any fee increases, and generally increases base funding for various programs. The 2001-02 State Budget includes \$45.5 billion in Proposition 98 spending in 2001-02 for K-12 education, an increase of \$2.5 billion over the current year. The 2001-02 State Budget provides for funding of \$7,002 per pupil, which represents an increase of \$324, or 4.9 percent, above the revised current-year level of per-pupil spending of \$6,678. Proposition 98 totals (including the revised total for Fiscal Year 2000-01) reflect the Legislature's appropriation of more General Fund monies than is required to meet the constitutional minimum, which was \$415 million more than the Fiscal Year 2000-01 minimum funding

level and approximately \$4 billion more than the guarantee for Fiscal Year 2001-02. The budget allocates almost \$2 billion to provide for inflation and growth adjustments. Specifically, the budget includes approximately \$565 million to accommodate a projected 1.4 percent increase in the student population, and \$1.4 billion for a 3.87 percent cost-of-living adjustment which applies to most program funding.

3. The 2001-02 State Budget appropriates tobacco settlement funds to support expanded coverage under the Healthy Families Program and enhanced coverage for cancer treatment. The 2001-02 State Budget also provides a lump-sum payment of \$191 million to settle litigation relating to payment rates for hospital outpatient services, and funding for rate increases for long-term care nursing facilities.
4. The CalWORKs Program and Foster Care programs are allotted increased funding of \$97 million from 2000-01 for cost-of-living adjustments and to fund costs associated with a new methodology for CalWORKs beginning in Fiscal Year 2002-03. The 2001-02 State Budget also includes funds to expand services for foster youth, continue cash and food benefits for recent immigrants, and raise the hourly wage for specified In-Home Supportive Services workers.
5. The 2001-02 State Budget allocates \$5.3 million to inmate and ward populations for the Departments of Corrections and Youth Authority, respectively. Additionally, the 2001-02 State Budget includes funding of \$4.6 billion from the General Fund for the California Department of Corrections for increased health care services and the replacement of electromechanical doors. This represents an increase of \$71.2 million, or 1.6 percent, above the 2000-01 funding. The 2001-02 State Budget also contains funding in the Department of Youth Authority for new initiatives related to mental health, substance abuse, and sex-offender treatment. The 2001-02 State Budget also provides funding of \$30 million for new and expanded initiatives in the areas of anti-drug related activities, \$25 million to fund a local forensic laboratory Improvement program, and \$7.6 million to increase law enforcement capabilities in addressing high-technology crime programs, and rural law enforcement assistance programs.
6. The 2000-01 State Budget included a five-year transfer (from 2001-02 through 2005-06) of General Fund sales taxes on gasoline to support traffic congestion relief efforts. The 2001-02 State Budget adopts the Governor's May Revision proposal to postpone the transfer for two years; transfers are now scheduled to take place from 2003-04 through 2007-08. To provide cash resources for transportation projects during the next two years, the 2001-02 State Budget authorizes \$560 million in loans from the Motor Vehicle Account, Public Transportation Account, and State Highway Account, which will be repaid beginning in 2006-07. In addition, the 2001-02 State Budget includes a proposed constitutional amendment to permanently dedicate the sales taxes on gasoline to transportation-related projects beginning in 2003-04.
7. The 2001-02 State Budget includes allocations of \$7.7 million from the General Fund for Energy Commission power plant siting workload, \$3.7 million (\$2.7 million General Fund) for Public Utilities Commission work regarding power plant siting and operation, generation, transmission, and conservation issues, and \$1.8 million for the Electricity Oversight Board for issues related to market monitoring and power plant outage and maintenance standards.

Proposed Governor's Budget for Fiscal Year 2002-03

On January 10, 2002, Governor Davis released his proposed budget for Fiscal Year 2002-03. The 2002-03 Proposed Governor's Budget generally reflects projected State's General Fund revenues for fiscal year 2002-03 of \$79.3 billion, an increase over the current year of 2.9 percent and General Fund expenditures are estimated at \$78.8 billion, including \$51.6 million for K-12 education, an increase of 0.5 percent over fiscal year 2001-02.

The 2002-03 Proposed Governor's Budget identifies a cumulative budget shortfall of \$12.5 billion in 2002-03, consisting of a current-year deficit of \$3 billion, a budget-year imbalance between revenues and expenditures of about \$9 billion, and the need to rebuild the reserve of \$500 million. The budget forecasts that total General Fund revenues and transfers will grow from \$71.4 billion in 2000-01 to \$77.1 billion in 2001-02 and \$79.3 billion in 2002-03. The following assumptions were the basis of these figures: a transfer out of the General Fund of \$6.2 billion in 2000-01 related to loans to the Department of Water Resources' Electric Power Fund; an offsetting transfer back into the General Fund of \$6.5 billion in 2001-02 reflecting repayment of and interest on these electricity loans, financed from an assumed electricity revenue bond sale in June 2002 and a \$2.4 billion transfer into the General Fund in 2002-03 associated with the administration's tobacco settlement securitization proposal.

Exclusive of the above transfers, underlying General Fund revenues are projected to decline by 9.4 percent in the current year and increase by 7.2 percent in 2002-03. The 2002-03 Proposed Governor's Budget proposes to close the \$12.5 billion funding gap through a variety of measures which include:

1. The 2002-03 Proposed Governor's Budget assumes implementation of the \$2.5 billion in spending reductions proposed in November, 2000 by the Governor (current year and budget year combined) from program areas throughout the budget. The budget plan also contains an additional \$2.7 billion in budget-year reductions, including such items as suspensions of COLAs in various social services programs, postponements of some recent health care expansions, reduced inflationary adjustments for higher education, and various other program reductions.
2. The 2002-03 Proposed Governor's Budget include \$586 Million in shifts of capital outlay support from the General Fund to lease-revenue bonds, and various spending shifts from the General Fund to special funds.
3. The 2002-03 Proposed Governor's Budget assumes \$1.1 billion in additional federal funds to offset state costs for MediCal, undocumented felon incarceration, and security activities. It also assumes elimination of federal child support penalties.
4. Total General Fund spending increase for K-12 education would be limited to 1.1 percent in 2002-03. The 2002-03 Proposed Governor's Budget reflects a minimal increase in the Proposition 98 minimum funding guarantee (2.2 percent, most of which is funded by growth in property tax revenues).
5. The 2002-03 Proposed Governor's Budget shows a 3.8 percent increase due in part to recent decisions to expand eligibility. This increase is offset by several spending reductions, including reforms in the way drugs are purchased and provided to patients, cuts in provider rates, and establishment of co-payments for certain patients.
6. The California Work Opportunity and Responsibility to Kids (CalWORKs) shows an increase

of 6.7 percent, with total funding equaling the minimum level required by federal law. The Supplemental Security Income/State Supplementary Program (SSI/SSP) also shows an increase in the budget year of 8.1 percent, primarily due to prior-year COLA adjustments and 2 percent caseload growth.

7. The 2002-03 Proposed Governor's Budget shows an aggregate decline of 1.7 percent, reflecting reductions in resources and environmental protection, as well as in general government programs.

LAO Reports

The State has recently experienced budgetary difficulties. In November 2001, the State Legislative Analyst Office ("LAO") released its projections of State revenues and expenditures for fiscal years 2001-02 through fiscal year 2006-07. According to the LAO's budget outlook, the State will end fiscal year 2001-02 with a deficit of \$4.5 billion. The 2001-02 State Budget assumed a \$2.6 billion reserve. Further, the LAO estimates a deficit in fiscal year 2002-03 of \$12.4 billion, even assuming the State experiences some recovery in the spring of calendar year 2002.

On February 20, 2002, the LAO released an analysis of the Governors 2002-03 budget bill. According to the budget analysis, the State's budget will experience a shortfall of \$5 billion assuming that all of the Governor's budget proposals are adopted. This report finds that this shortfall is due to overstated budget revenues of \$3.9 billion and understated expenditures of \$1.1 billion, as well as lower-than-expected receipts of new federal funds. The analysis also refers to an over-reliance in the Governor's budget on borrowing (\$4.8 billion) to pay for the budget deficit, and an assumption about the expected rate of recovery from the recent statewide recession.

The County cannot predict what actions will be taken in the future by the State Legislature and the Governor to deal with changing State revenues and expenditures. Future State Budgets will be affected by national and state economic conditions and other factors over which the County will have no control. See also "Risk Factors – Recent Developments Concerning Electricity" herein.

SAN DIEGO COUNTY INVESTMENT POOL

General

Pursuant to a resolution adopted July 8, 1958, the Board of Supervisors delegated to the Treasurer the authority to invest and reinvest funds of the County. Applicable law limits this delegation of authority to a one-year period and must be renewed annually by action of the Board of Supervisors. In addition to funds of the County (and the various departments in the County, such as Public Works and Public Administration), funds of certain local agencies within the County, including school districts in the County, are required under state law to be deposited into County treasury ("Involuntary Depositors"). In addition, certain agencies, including community college districts, invest certain of their funds in the County treasury on a voluntary basis ("Voluntary Depositors" and together with the Involuntary Depositors, the "Depositors"). Deposits made by the County and the various local agencies are commingled in a pooled investment fund (the "Treasury Pool" or the "Pool"). No particular deposits are segregated for separate investment.

Under State law, Depositors in the Pool are permitted to withdraw funds which they have deposited on 30 days notice. The County does not expect that the Pool will encounter liquidity shortfalls based on its current portfolio and investment guidelines or realize any losses that may be required to be allocated among

all Depositors in the Pool.

The County has established an Oversight Committee as required by State law. The members of the Oversight Committee include the Treasurer, the Chief Financial Officer, members of the public, and a representative from a special district and a school district. The role of the Oversight Committee is to review and monitor the Investment Policy that is prepared by the Treasurer.

The Treasury Pool's Portfolio

As of January 31, 2002, the securities in the Treasury Pool had a market value of \$3,215,235,250 and a book value of \$3,197,114,233, for a net unrealized gain of .567% or \$18,121,017 of the book value of the Treasury Pool. As of January 31, 2002, the weighted average maturity of the Pool portfolio was approximately 478 days. As of February 8, 2002, 23.81% of the Pool was invested in securities with maturities ranging from 1-30 days, 2.12% of the Pool was invested in securities with maturities ranging from 31-90 days, 5.66% of the Pool was invested in securities with maturities ranging from 91-180 days, 29.29% of the Pool was invested in securities with maturities ranging from 181-365 days, 7.61% of the Pool was invested in securities with maturities ranging from 366 to 2 years, and 31.51% of the Pool was invested in securities with maturities between 2 and 5 years.

The effective duration for the Treasury Pool was 0.58 years as of January 31, 2002. "Duration" is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. A duration of 0.58 means that for every one percent increase in interest rates the market value of the portfolio would decrease by 0.58 percent.

As of January 31, 2002, approximately 2.56% of the total funds in the Pool were deposited by Voluntary Depositors, such as cities and fire districts, 4.09% by community colleges, 42.51% by the County, and 47.26% by K-12 school districts.

S&P maintains ratings on the Pool's ability to meet its financial commitments of "AAAF" (credit quality rating) and "S1" (volatility rating). The "AAAF" rating reflects the extremely strong protection the pool's portfolio investments provide against losses from credit defaults. The Pool invests primarily in "AAA" or "A-1+" rated securities or in U.S. agency securities. The "S1" volatility rating signifies that the pool possesses low sensitivity to changing market conditions, given its low-risk profile and conservative investment policies. To maintain accurate ratings and analysis on rated pools, S&P's actively monitors the pool's investments, strategies and management. The ratings reflect only the views of S&P and any explanation of the significance of such ratings may be obtained from Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041.

Investments of the Treasury Pool

Authorized Investments. Investments of the Pool are placed in those securities authorized by various sections of the California Government Code, which include obligations of the United States Treasury, Agencies of the United States Government, local and State bond issues, bankers acceptances, commercial paper of prime quality, certificates of deposit (both collateralized and negotiable), repurchase and reverse repurchase agreements, medium term corporate notes, shares of beneficial interest in diversified management companies (mutual funds), and asset backed (including mortgage related) and pass-through securities. Generally, investments in repurchase agreements cannot exceed a term of one year and the security underlying the agreement shall be valued at 102% or greater of the funds borrowed against the security and the value of the repurchase agreement shall be adjusted no less than quarterly. In addition, reverse repurchase agreement generally may not exceed 20% of the base value of the portfolio and the term of the agreement may not exceed

92 days. Securities lending transactions are considered reverse repurchase agreements for purposes of this limitation. Base Value is defined as the total cash balance excluding any amounts borrowed (i.e., amounts obtained through selling securities by way of reverse repurchase agreements or other similar borrowing methods).

Legislation which would modify the currently authorized investments and place restrictions on the ability of municipalities to invest in various securities is considered from time to time by the California State Legislature. Therefore, there can be no assurances that the current investments in the Treasury Pool will not vary significantly from the investments described herein.

The Investment Policy. The County's Investment Policy (the "Investment Policy") (which may be modified, amended, or otherwise changed at any time at the sole discretion of the Treasurer) currently states the primary goals of the Treasurer when investing public funds to be as follows: the primary objective is to safeguard the principal of the funds under the Treasurer's control, the secondary objective is to meet the liquidity needs of the Pool Participants, and the third objective is to achieve a return on the funds under the control of the Treasurer within the parameters of prudent risk management. The Investment Policy contains a goal that 50% of the Pool should be invested in securities maturing in one year or less, with the remainder of the portfolio being invested in debt securities with maturities spread approximately equally over more than one year to five years. With respect to reverse repurchase agreements, the Investment Policy provides for a maximum maturity of 92 days (unless the reverse repurchase agreement includes a written guarantee of a minimum earning or spread for the entire period of such agreement) and a limitation on the total amount of reverse repurchase agreements to 20% of the total investments in the Pool. The Investment Policy states that the purpose of reverse repurchase agreements is to supplement the yield on securities owned by the Pool or to provide funds for the immediate payment of an obligation and that the maturity of the reverse repurchase agreement and the maturity of the security purchased be the same.

The Investment Policy also authorizes investments in covered call options or put options, which are options on the part of a third party to buy from the Pool a specified security within a finite time at a specified price. Under the Investment Policy, securities subject to covered calls are not to be used for reverse repurchase agreements, cash sufficient to pay for outstanding puts are to be invested in securities maturing on or before the expiration date of the option, the maximum maturity of a covered call option/put option is to be 90 days and not more than 10% of the total investments in the Pool could have options (in contrast to "derivatives") written against them at any one time.

The County from time to time has engaged in securities lending transactions. Generally, these transactions involve the transfer by the governmental entity, through an agent, of securities to certain broker-dealers and financial institutions or other entities in exchange for collateral, and this collateral may be cash or securities. Most commonly, these transactions provide for the return of the collateral to the securities borrower upon receipt of the same securities at a later date. Presently, the County has suspended its securities lending transactions program, but may decide to enter into a securities lending agreement with another custodian in the future. Any such securities lending transactions are considered reverse repurchase agreements under the Investment Policy and, accordingly, the total principal amount of reverse repurchase agreements and securities lending agreements may not exceed 20% of the Pool. Since the inception of the County's securities lending program in 1987, there has not been any loss of principal to the Pool resulting from these securities lending transactions or the investment of the related collateral.

Certain Information Relating to Pool

The following table reflects information with respect to the Pool as of the close of business January 31, 2002. As described above, a wide range of investments is authorized by state law. Therefore, there can be

no assurances that the investments in the Pool will not vary significantly from the investments described below. In addition, the value of the various investments in the Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the various investments in the Pool will not vary significantly from the values described below. In addition, the values specified in the following tables were based upon estimates of market values provided to the County by a third party. Accordingly, there can be no assurance that if these securities had been sold on January 31, 2002, the Pool necessarily would have received the values specified.

The County has no significant Pool investments in Enron and therefore does not expect the recent Enron bankruptcy to have a material adverse effect on investments in the Pool.

Treasurer-Tax Collector
San Diego County Portfolio Statistics
As of January 31, 2002

	<u>Percent of Portfolio</u>	<u>Book Value</u>	<u>Market Price</u>	<u>Accrued Interest</u>	<u>Market Value</u>	<u>Unrealized Gain/(Loss)</u>	<u>Yield to Maturity</u>	<u>Weighted Average Days to Maturity</u>
Federal Farm Credit Bank Notes	0.78%	\$25,005,866	100.16%	140,625	\$25,039,000	\$33,134	2.22%	274
Federal Home Loan Bank Notes	12.27	387,897,540	101.70	5,164,843	394,579,315	6,681,775	5.91	892
Federal National Mortgage Association Notes	20.96	665,398,657	101.25	10,346,870	673,838,558	8,439,900	4.99	957
Federal Home Loan Mortgage Corporation Notes	8.80	279,950,172	101.08	2,837,424	283,027,750	3,077,578	4.71	956
Student Loan Marketing Assoc. Notes	1.55	50,023,662	99.80	87,500	49,898,500	(125,162)	2.20	337
Corporate Medium Term Notes	1.86	60,000,000	99.85	25,750	59,908,800	(91,200)	1.93	417
Money Market Funds	12.35	397,000,000	100.00	498,349	397,000,000	0	1.98	1
Repurchase Agreements	6.84	220,000,000	100.00	11,872	220,000,000	0	1.94	1
Negotiable Certificates of Deposit	16.01	514,957,756	99.95	1,996,726	514,722,500	(235,256)	2.30	320
Commercial Paper	18.56	596,390,580	99.41	0	596,730,828	340,248	2.17	112
Collateralized Certificates of Deposit					490,000	0	3.36	166
Totals for January 2002	100.00%	\$3,197,114,233	100.43	\$21,111,532	\$3,215,235,250	\$18,121,017	3.41%	478
Totals for December 2001	100.00%	\$3,317,323,258	100.45	\$15,371,218	\$3,337,669,584	\$20,346,326	3.41%	490
Change from Prior Month		(\$120,209,025)	-0.01		(\$122,434,334)	(\$2,225,309)	0.00%	-12
Overall Portfolio Effective Duration		0.58 years						
	<u>January '02 Return</u>	<u>Annualized</u>	<u>Fiscal Year to Date Return</u>	<u>Annualized</u>	<u>Calendar Year to Date Return</u>	<u>Annualized</u>		
Book Value	0.289%	3.407%	8.998%	5.663%	5.530%	5.097%		
Market Value	0.230	2.712	11.714%	7.372	6.698	6.174		

THE CORPORATION

The Corporation was organized on June 12, 1984, as a nonprofit public benefit corporation pursuant to the Nonprofit Public Corporation Law of the State of California. The Corporation's purpose is to render assistance to the County in its acquisition of equipment, real property and improvements on behalf of the County. Under its articles of incorporation, the Corporation has all powers conferred upon nonprofit public benefit corporations by the laws of the State of California, provided that it will not engage in any activity other than that which is necessary or convenient for, or incidental to the purposes for which it was formed. The Corporation has no taxing authority. The Corporation has no liability to the Owners of the Certificates and has pledged none of its moneys, funds or assets toward the Base Rental Payments or Additional Rental under the Sublease, or toward the payment of any amount due in connection with the Certificates.

The Corporation is a separate legal entity from the County. It is governed by a five-member Board of Directors (the "Board of Directors") appointed by the Board of Supervisors of the County. The Corporation has no employees. All staff work is performed by employees of the County. The members of the Corporation's Board of Directors are Michel Anderson, Hardy G. Kuykendall, Timothy Considine, Jeff Kane and Barry I. Newman.

The County's Chief Financial Officer, Treasurer-Tax Collector, the County Counsel, and other County employees are available to provide staff support to the Corporation.

The Corporation has not entered into any material financing arrangements with respect to the Certificates other than those referred to in this Official Statement. Further information concerning the Corporation may be obtained from the San Diego County Capital Asset Leasing Corporation office at 1600 Pacific Highway, Room 166, San Diego, California 92101.

LIMITATIONS ON TAX REVENUES

Article XIII A

On June 6, 1978, California voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash property value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value,' or thereafter, the appraised value of real property newly constructed, or when a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any *ad valorem* tax on real property to one percent of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition.

Legislation enacted by the California Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement (except as noted) is shown at 100% of assessed value and all general tax rates reflect the \$1 per \$100 of taxable value. Tax rates for voter approved bonded indebtedness and pension liability are also applied to 100% of assessed value.

Future assessed valuation growth allowed under Article XIII A (new construction, change of ownership, 2% annual value growth) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and school districts will share the growth of "base" revenue from the tax rate area. Each year's growth allocation becomes part of each agency's allocation the following year. The Participants are unable to predict the nature or magnitude of future revenue sources which may be provided by the State of California (the "State") to replace any lost property tax revenues. Article XIII A effectively prohibits the levying of any other *ad valorem* property tax above the 1% limit except for taxes to support indebtedness approved by the voters as described above.

Article XIII B

On November 6, 1979, California voters approved Proposition 4, the so-called Gann Initiative, which added Article XIII B to the California Constitution. In June 1990, Article XIII B was amended by the voters through their approval of Proposition 111. Article XIII B of the California Constitution limits the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted annually for changes in the cost of living, population and services rendered by the governmental entity. The "base year" for establishing such appropriation limit is the 1978-79 fiscal year. Increases in appropriations by a governmental entity are also permitted (i) if financial responsibility for providing services is transferred to the governmental entity, or (ii) for emergencies so long as the appropriations limits for the three years following the emergency are reduced to prevent any aggregate increase above the Constitutional limit. Decreases are required where responsibility for providing services is transferred from the government entity.

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, and benefit payments from retirement, unemployment insurance and disability insurance funds. Appropriations subject to limitation pursuant to Article XIII B do not include debt service on indebtedness existing or legally authorized as of January 1, 1979, on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the Federal government, appropriations for qualified out lay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to any entity of government from (i) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (ii) the investment of tax revenues and (iii) certain State subventions received by local governments. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two fiscal years.

As amended in June 1990, the appropriations limit for the Participants in each year is based on the limit for the prior year, adjusted annually for changes in the costs of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the Participants' option, either (i) the percentage change in California per capita personal income, or (ii) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college ("K-14") districts.

As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received by the County over such two-year period above the

combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years.

Article XIII B permits any government entity to change the appropriations limit by vote of the electorate in conformity with statutory and Constitutional voting requirements, but any such voter-approved change can only be effective for a maximum of four years.

Proposition 46

On June 3, 1986, California voters approved Proposition 46, which added an additional exemption to the 1% tax limitation imposed by Article XIII A. Under this amendment to Article XIII A, local governments and school districts may increase the property tax rate above 1% for the period necessary to retire new general obligation bonds, if two-thirds of those voting in a local election approve the issuance of such bonds and the money raised through the sale of the bonds is used exclusively to purchase or improve real property.

Proposition 62

Proposition 62 was adopted by the voters at the November 4, 1986, general election which (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities such as the County be approved by a two-thirds vote of the governmental entity's legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local government entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (d) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIII A of the California Constitution, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after August 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

On September 28, 1995, the California Supreme Court, in the case of *Santa Clara County Local Transportation Authority v. Guardino*, upheld the constitutionality of Proposition 62. In this case, the court held that a county-wide sales tax of one-half of one percent was a special tax that, under Section 53722 of the Government Code, required a two-thirds voter approval. Because the tax received an affirmative vote of only 54.1%, this special tax was found to be invalid. The decision did not address the question of whether or not it should be applied retroactively.

Following the California Supreme Court's decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62. On June 4, 2001, the California Supreme Court released its decision in one of these cases, *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* ("*La Habra*"). In this case, the court held that public agency's continued imposition and collection of a tax is an ongoing violation, upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

Since the adoption of Proposition 62, the County enacted an increase in the transient occupancy tax from 8% to 9% without a vote. No challenge has been instituted against the imposition or collection of this

tax. The County has collected an average of approximately \$314,000 from the increase in the transient occupancy tax in each year from fiscal years 1997-98 through 2000-01, totaling approximately \$1.3 million, and has collected \$193,666 thus far in fiscal year 2001-02. The County believes that any effect on the ability of the County to collect this increase in the transient occupancy tax or order to refund any previously collected taxes will not adversely affect the ability of the County to repay the Certificates or any of its other obligations as and when due.

Right to Vote on Taxes Initiative-Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, a constitutional initiative, entitled the "Right to Vote on Taxes Act" ("Proposition 218"). Proposition 218 adds Articles XIIC and XIID to the California Constitution and contains a number of interrelated provisions affecting the ability of local governments, including the County, to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 became effective on November 6, 1996. Senate Bill 919 was enacted to provide certain implementing provisions for Proposition 218 and became effective July 1, 1997. The County is unable to predict whether and to what extent Proposition 218 may be held to be constitutional or how its terms will be interpreted and applied by the courts. Proposition 218 could substantially restrict the County's ability to raise future revenues and could subject certain existing sources of revenue to reduction or repeal, and increase the County's costs to hold elections, calculate fees and assessments, notify the public and defend its fees and assessments in court. Further, as described below, Proposition 218 provides for broad initiative powers to reduce or repeal assessments, fees and charges. This initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6, 1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges. However, other than any impact resulting from the exercise of this initiative power, presently the County does not believe that the potential financial impact on the financial condition of the County as a result of the provisions of Proposition 218 will adversely affect the County's ability to pay the principal of and interest with respect to Certificates as and when due and its other obligations payable from the General Fund.

Article XIIC of Proposition 218 requires majority voter approval for the imposition, extension or increase of general taxes and two-thirds voter approval for the imposition, extension or increase of special taxes, including special taxes deposited into the County's General Fund. Proposition 218 also provides that any general tax imposed, extended or increased without voter approval by any local government on or after January 1, 1995 and prior to November 6, 1996 shall continue to be imposed only if approved by a majority vote in an election held within two years of November 6, 1996. The County has not enacted imposed, extended or increased any tax without voter approval since January 1, 1995. These voter approval requirements of Proposition 218 reduce the flexibility of the County to raise revenues through General Fund taxes, and no assurance can be given that the County will be able to raise such taxes in the future to meet increased expenditure requirements.

Article XIIC of Proposition 218 also expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed. This extension of the initiative power to some extent constitutionalizes the March 6, 1995 State Supreme Court decision in *Rossi v. Brown*, which upheld an initiative that repealed a local tax and held that the State constitution does not preclude the repeal, including the prospective repeal, of a tax ordinance by an initiative, as contrasted with the State constitutional prohibition on referendum powers regarding statutes and ordinances which impose a tax. Generally, the initiative process enables California voters to enact legislation upon obtaining requisite voter approval at a general election. Proposition 218 extends the authority stated in *Rossi v. Brown* by expanding the initiative power to include reducing or repealing assessments, fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not

limited by the terms of Proposition 218 to fees imposed after November 6, 1996, and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges. Such legal authority could include the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. SB 919 provides that the initiative power provided for in Proposition 218 "shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after November 6, 1998, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights" protected by the United States Constitution. However, no assurance can be given that the voters of the County will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges that currently are deposited into the County's General Fund. Further, "fees" and "charges" are not defined in Article XIIC or SB 919, and it is unclear whether these terms are intended to have the same meanings for purposes of Article XIIC as they do in Article XIID, as described below. Accordingly, the scope of the initiative power under Article XIIC could include all sources of General Fund moneys not received from or imposed by the federal or State government or derived from investment income.

The initiative power granted under Article XIIC of Proposition 218, by its terms, applies to all local taxes, assessments, fees and charges and is not limited to local taxes, assessments, fees and charges that are property related. The County is unable to predict whether the courts will interpret the initiative provision to be limited to property related fees and charges. No assurance can be given that the voters of the County will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges which are deposited into the County's General Fund. The County believes that in the event that the initiative power was exercised so that all local taxes, assessments, fees and charges which may be subject to the provisions of Proposition 218 are reduced or substantially reduced, the financial condition of the County, including its General Fund, would be materially adversely affected. As a result, there can be no assurances that the County would be able to pay the principal of and interest represented by the Base Rental Payments of the Certificates as and when due or any of its other obligations payable from the General Fund.

Article XIID of Proposition 218 adds several new requirements making it generally more difficult for local agencies to levy and maintain "assessments" for municipal services and programs. "Assessment" is defined in Proposition 218 and SB 919 to mean any levy or charge upon real property for a special benefit conferred upon the real property. This includes maintenance assessments imposed in County service areas and in special districts. In most instances, in the event that the County is unable to collect assessment revenues relating to specific programs as a consequence of Proposition 218, the County will curtail such services rather than use amounts in the General Fund to finance such programs. Accordingly, the County anticipates that any impact Proposition 218 may have on existing or future taxes, fees, and assessments will not adversely affect the ability of the County to pay the principal of and interest represented by the Certificates as and when due. However, no assurance can be given that the County may or will be able to reduce or eliminate such services in the event the assessments that presently finance them are reduced or repealed.

Article XIID of Proposition 218 also adds several provisions affecting "fees" and "charges" which are defined as "any levy other than an ad valorem tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." All new and, after June 30, 1998, existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) are for a service not actually used by, or immediately available to, the owner of the property in question, or (iv) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or

charge. The County must then hold a hearing upon the proposed imposition or increase of such property based fee, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the County may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services, no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area. The annual amount of revenues that are received by the County and deposited into its General Fund which may be considered to be property related fees under Article XIID of Proposition 218 is not substantial. Accordingly, presently the County does not anticipate that any impact Proposition 218 may have on future fees and charges will not adversely affect the ability of the County to pay the principal of and interest represented by the Certificates as and when due. However, no assurance can be given that the County may or will be able to reduce or eliminate such services in the event the fees and charges that presently finance them are reduced or repealed.

The County has a clean water enterprise fund which is self-supporting from fees and charges that may ultimately be determined to be property related for purposes of Article XIID of Proposition 218. Further, the fees and charges of the County's enterprise funds, including those which are not property related for purposes of Article XIID of Proposition 218, may be determined to be fees and charges subject to the initiative power as provided in Article XIIC of Proposition 218, as described above. In the event that fees and charges cannot be appropriately increased or are reduced pursuant to the exercise of the initiative power, the County may have to choose whether to reduce or eliminate the service financed by such fees or charges or finance such service from its General Fund. Further, no assurance can be given that the County may or will be able to reduce or eliminate such services in the event the fees and charges that presently finance them are reduced or repealed.

Additional implementing legislation respecting Proposition 218 may be introduced in the State legislature from time to time that would supplement and add provisions to California statutory law. No assurance may be given as to the terms of such legislation or its potential impact on the County.

Future Initiatives

Article XIIB, Article XIIC, Article XIID and Propositions 39, 98 and 1A were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting Participants' revenues or their ability to expend revenues.

RISK FACTORS

The following factors, along with all other information in this Official Statement, should be considered by potential investors in evaluating the Certificates.

Not a Pledge of Taxes

The obligation of the County to pay the Base Rental Payments or Additional Rental does not constitute an obligation of the County for which the County is obligated to levy or pledge any form of taxation or for which the County has levied or pledged any form of taxation. The obligation of the County to pay Base Rental Payments or Additional Rental does not constitute a debt or indebtedness of the County, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Although the Lease does not create a pledge, lien or encumbrance upon the funds of the County, the County is obligated under the Lease to pay Base Rental Payments from any source of legally available funds (subject to certain exceptions) and the County has covenanted in the Lease that, for as long as the Equipment

are available for its use and possession, it will make the necessary annual appropriations within its budget for all Base Rental Payments. The County is currently liable on other obligations payable from general revenues.

Additional Obligations of the County

The County has the capability to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the County, the funds available to make Base Rental Payments may be decreased.

The Base Rental Payments and other payments due under the Lease (including payment of costs of repair and maintenance of the Equipment, taxes and other governmental charges levied against the Equipment) are payable from funds lawfully available to the County. In the event that the amounts which the County is obligated to pay in a fiscal year exceed the County's revenues for such year, the County may choose to make some payments rather than making other payments, including Base Rental Payments, based on the perceived needs of the County. The same result could occur if, because of California Constitutional limits on expenditures, the County is not permitted to appropriate and spend all of its available revenues.

Limitations on Remedies

The rights of the owners of the Certificates are subject to the limitations on legal remedies against counties in the State, including a limitation on enforcement obligations against funds needed to serve the public welfare and interest. Additionally, enforceability of the rights and remedies of the owners of the Certificates, and the obligations incurred by the County, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against counties in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Certificates to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights

On January 24, 1996, the United States Bankruptcy Court for the Central District of California held in the case of *County of Orange v. Merrill Lynch* that a State statute providing for a priority of distribution of property held in trust conflicted with, and was preempted by, federal bankruptcy law. In that case, the court addressed the priority of the disposition of moneys held in a county investment pool upon bankruptcy of the county. The County may invest, and direct the Trustee to invest, amounts held in the Certificate Reserve Fund, the Base Rental Payment Fund and the Administrative Expense Fund in the Treasury Pool, which amounts are pledged to repay the Certificates. In the event of a petition for the adjustment of County debts under Chapter 9 of the federal bankruptcy code, a court might hold that the Owners of the Certificates do not have a valid lien on the amounts held in such funds where such amounts are deposited in the Treasury Pool and may not provide the Owners of the Certificates with a priority interest in such amounts. In such instance, unless such Owners could "trace" the funds, the Owners would be only unsecured creditors of the County. There can be no assurance that the Owners could successfully so "trace" the amounts representing amounts held in such funds.

Default

In the event of a default, the Trustee has the option to terminate the Lease or to reenter or relet the Leased Premises without such termination and collect each installment of rent as it becomes due and enforce

any other term or provision of the Lease to be performed by the County. There is no remedy of acceleration of the total Base Rental Payments due over the term of the Lease, nor is the Trustee empowered to sell the Equipment and use the proceeds of such sale to prepay the Certificates or pay debt service thereon. In the event the Trustee does not elect to terminate the Lease, then, the County shall remain liable to perform all covenants and conditions to be performed by the County and, to pay the rent to the end of the term of the Lease or, in the event that the Equipment is re-let, to pay any deficiency in rent that results therefrom. The Trustee would be required to seek a separate judgment each year for that year's defaulted Base Rental Payments. Any such suit for money damages would be subject to limitations on legal remedies against counties in the State, including a limitation on enforcement of judgments against funds of a fiscal year other than the fiscal year in which the Base Rental Payments were due and against funds needed to serve the public welfare and interest.

Abatement

Except to the extent of (i) amounts held by the Trustee in the Base Rental Payment Fund or held by the County in the Certificate Reserve Fund; (ii) amounts received in respect of use and occupancy insurance; and (iii) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Certificates or Additional Certificates, during any period in which, by reason of material damage, destruction, title defect or condemnation, there is substantial interference with the use and possession by the County of any portion of the Equipment, rental payments due under the Lease with respect to the Equipment shall be abated to the extent that the annual fair rental value of the portion of the Equipment in respect of which there is no substantial interference is less than the annual Base Rental Payments and Additional Rental, in which case rental payments shall be abated only by an amount equal to the difference. Any abatement of rental payments pursuant to the Lease shall not be considered an Event of Default as defined therein. Such abatement will continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Equipment so damaged, destroyed, defective or condemned.

Obsolescence of any of the Equipment is not an event of abatement.

In the event that rental is abated, in whole or in part, pursuant to the Lease due to damage, destruction, title defect or condemnation of any part of the Equipment and the County is unable to repair, replace or rebuild the Equipment from the proceeds of insurance, if any, the County agrees to apply for and to use its best efforts to obtain any appropriate state and/or federal disaster relief in order to obtain funds to repair, replace or rebuild the Equipment.

Earthquakes

The County is not obligated under the Lease to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Equipment and no assurance can be made that the County will procure and maintain, or cause to be procured and maintained, such insurance.

Recent Developments Concerning Electricity

General. The State of California has experienced power shortages and significant increases in the wholesale cost of power. The State has taken several actions to mitigate the short-term and long-term effects of the power shortages on the State's economy. On February 1, 2001, Governor Davis signed Chapter 4, Statutes of 2001 ("AB 1X"), which authorized the State Department of Water Resources (the "DWR") to enter into long-term contracts to purchase electricity for resale to customers of California's IOUs. On May 10, 2001, Governor Davis signed Chapter 9X, Statutes of 2001 ("SB 31X"), which provides for implementation and clarification of various matters relating to DWR's activities with respect to the energy situation, including

authorization of up to \$13.423 billion in revenue bonds. Revenues received from retail end-use utility customers will secure the bonds. SB 31X was effective on August 14, 2001. Under the terms of AB 1X, all General Fund outlays for DWR electricity purchases, including interest costs since January 17, 2001, are to be reimbursed from the proceeds of such revenue bonds. The County understands that DWR also plans to use bond proceeds to fund power purchases until wholesale energy prices stabilize.

Total General Fund appropriations to date for State power purchases are approximately \$8 billion since January 2001. Electricity purchases by the DWR and other efforts of the State to stabilize the wholesale power market are intended to ultimately lower the wholesale cost of electricity in California.

There can be no assurance that there will not be future disruptions in energy supplies or related developments that could affect the State's revenues. Further, power purchases by the State from General Fund appropriations have significantly reduced the State's cash reserves and there can be no assurance that the State's plan to issue bonds or notes to reimburse it for these appropriations will occur. In addition, the higher retail rates for electricity and disruptions in service caused by shortages may adversely impact the general economy of the State. These developments, together with currently unknown or unforeseeable related developments, could have a material adverse impact on the State's finances. In addition, slower than expected economic growth could adversely affect projected revenues for the State for fiscal year 2001-02 and subsequent fiscal years. Any of these developments could adversely impact the financial condition of the County.

Effect on the County. The County is supplied with electricity and natural gas solely by San Diego Gas & Electric ("SDG&E"). The County has experienced limited power shortages which, to date, have not affected the County's operations. Any future temporary reduction or loss of power, however, could materially adversely affect the operations of the County. Future rate increases may increase the County's total utility costs and high electricity costs to retail end users may indirectly affect the County's economy. The County estimated its energy costs and created contingencies in the fiscal year 2001-02 budget should rates escalate during the year. The County expects to be within the \$19 million budgeted for utility costs without using contingencies because of credits and rebates that applied to this year's bills. Future year costs will be higher. The County will plan to spend \$22.5 million in fiscal year 2002-03 for utility costs. The County cannot guarantee there will not be an interruption in electric or gas service in the future or that prices for electricity or gas will not materially increase.

For Fiscal Year 2000-01, approximately 2.27%, or \$6,315,064 of the County's General Fund property taxes of \$278,183,227.46 are derived from SDG&E and 1.95% or \$5,425,634 are derived from SCE. This portion represents approximately .46% of the County's total General Fund revenues of \$2,528,222,175. *Ad valorem* real property taxes are secured by the respective real property prior to all other obligations that may also be secured by such real property.

Changes in the Economy; Security Expenditures

On September 11, 2001, terrorist attacks occurred in New York City, Washington D.C., and western Pennsylvania that resulted in significant damage and casualties. The County is unable to determine the effect of such events, if any, on, among other things, the County's current and future budgets, tax revenues, available reserves, and additional public safety expenditures. The County has begun implementing additional security and public safety measures. Expenditures for such measures are not presently expected to be material to the financial position of the County. The County does not guarantee, however, that additional actions affecting the County will not have a material adverse financial impact on the County.

The County currently maintains property insurance for all risks of physical damage to personal property. In addition, the County maintains business interruption insurance for the period necessary to fully

repair or replace the Equipment. The cost of such insurance and deductibles applicable thereto could increase substantially as the annual policies are renewed.

Article XIII A Litigation

In June 1978, Article XIII A of the California Constitution was amended by Proposition 13 to, among other things, limit a County assessor's ability to annually adjust for inflation to 2% per year. See "Constitutional and Statutory Limitations on Taxes and Appropriations-Article XIII A" herein. On November 2, 2001, an Orange County Superior Court ruled in *County of Orange v. Orange County Assessment Appeals Board No. 3* (the "Orange County Litigation") that the Orange County Assessor raised a homeowner's assessment in violation of Article XIII A by increasing the assessment on the homeowner's property by more than 2% per year, when the price appreciation in prior years was less than 2% per year. Orange County raised assessments by more than 2% in a single year if the value of a property remained flat after a taxpayer purchased the property, and then increased by more than 2% in a subsequent year. A comparable claim to the one involved in the Orange County Litigation by a landowner within the County has been rejected by the County of San Diego Assessment Appeals Board for the fiscal year 2000-01 property tax levy and the landowner has at least three more years in which to further prosecute this claim.

The County cannot predict the outcome of the Orange County Litigation nor whether the claim against the County will be prosecuted further by the landowner. The Court's ruling only applies to the particular assessment involved in this case. However, if the Court's reasoning is applied generally, the loss of tax revenue to communities could be significant. Further, the County cannot predict the effect, if any, that the outcome of either the Orange County Litigation or the further prosecution of the claim against the County would have on property tax revenues to be received by the County, although the effect could be adverse.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California and The HTB Law Group, Oakland, California, Co-Special Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the portion of each Base Rental Payment attributed to and constituting interest paid by the County under the Lease and received by the registered owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Co-Special Counsel are of the further opinion that such interest portion of each Base Rental Payment is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Co-Special Counsel observe that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Co-Special Counsel is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the Certificates is less than the amount to be paid at maturity of such Certificates (excluding amounts stated to be interest and payable at least annually over the term of such Certificates), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Certificates which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Certificates is the first price at which a substantial amount of such maturity of the Certificates is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Certificates accrues daily over the term to maturity of such Certificates on the basis of a constant interest rate compounded semiannually (with straight-line interpolations

between compounding dates). The accruing original issue discount is added to the adjusted basis of such Certificates to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Certificates. Owners of the Certificates should consult their own tax advisors with respect to the tax consequences of ownership of Certificates with original issue discount, including the treatment of purchasers who do not purchase such Certificates in the original offering to the public at the first price at which a substantial amount of such Certificates is sold to the public.

Certificates purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Obligations") will be treated as having amortizable premium. No deduction is allowable for the amortizable premium in the case of obligations, like the Premium Obligations, the interest evidenced by which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a purchaser's basis in a Premium Obligation, will be reduced by the amount of amortizable premium properly allocable to such purchaser. Owners of Premium Obligations should consult their own tax advisors with respect to the proper treatment of amortizable premium in their particular circumstances.

The Code imposes various requirements that must be met in order for interest evidenced by the Certificates to be excluded from gross income for federal income tax purposes. The County made representations related to certain of these requirements and has covenanted to comply with certain of these requirements. Inaccuracy of these representations or failure to comply with these covenants may result in interest evidenced by the Certificates being included in gross income for federal income tax purposes, possibly from the date of original execution and delivery of the Certificates. The opinion of Co-Special Counsel assumes the accuracy of these representations and compliance with these covenants. Co-Special Counsel have not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of execution and delivery of the Certificates may adversely affect the value of, or the tax status of interest evidenced by, the Certificates.

Certain requirements and procedures contained or referred to in the Trust Agreement, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, prepayment of the Base Rental Payments evidenced by the Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Co-Special Counsel express no opinion as to any Certificate or the portion of each Base Rental Payment attributed to and constituting interest if any such change occurs or action is taken or omitted upon the advice or approval of Co-Special Counsel other than Orrick, Herrington & Sutcliffe LLP and The HTB Law Group.

Although Co-Special Counsel are of the opinion that the portion of each Base Rental Payment attributed to and constituting interest is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of the Certificates, or the accrual or receipt of the portion of each Base Rental Payment designated as and comprising interest, may otherwise affect the federal or state tax liability of an owner of a Certificate. The nature and extent of these other tax consequences will depend upon the particular tax status of the Certificate owner or the Certificate owner's other items of income or deduction. Co-Special Counsel express no opinion regarding any such other tax consequences.

In addition, no assurance can be given that any future legislation, including amendments to the Code, if enacted into law, or changes in interpretation of the Code, will not cause interest evidenced by the Certificates to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Certificate owners from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the Certificates should consult their own tax advisers regarding any pending or proposed federal tax legislation. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any

action of the Internal Revenue Service ("IRS"), including but not limited to regulation, ruling, or selection of the Certificates for audit examination, or the course or result of any IRS examination of the Certificates, or obligations which present similar tax issues, will not affect the market price for the Certificates.

CERTAIN LEGAL MATTERS

The validity of the Certificates and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California and The HTB Law Group, Oakland, California, Co-Special Counsel. A complete copy of the proposed form of opinion of Co-Special Counsel is contained in Appendix E hereto. Co-Special Counsel undertake no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriters by its counsel, Hawkins, Delafield & Wood, Los Angeles, California, and for the County and the Corporation by the County Counsel.

FINANCIAL STATEMENTS

The general purpose financial statements of the County, pertinent sections of which are included in Appendix B to this Official Statement, have been audited by KPMG LLP, independent certified public accountants, as stated in their report appearing in Appendix B. KPMG LLP has not consented to the inclusion of its report as Appendix B and has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by KPMG LLP with respect to any event subsequent to its report dated December 28, 2001.

LITIGATION

No litigation is pending, or to the best knowledge of the County, threatened against the County or the Corporation concerning the validity of the Certificates. The County is not aware of any litigation pending or threatened questioning the political existence of the County or the Corporation or contesting the County's ability to levy and collect *ad valorem* property taxes. There are a number of suits and claims pending against the County, all of which are in the normal course of the County's business. Also pending are a number of personal injury and wrongful death suits and claims, the aggregate amount of which will not, in the opinion of the County Counsel, materially affect the County's finances or impair its ability to make Base Rental Payments under the Lease in amounts sufficient to pay, when due, amounts designated as principal and interest with respect to the Certificates.

RATINGS

Standard & Poor's Ratings Services ("S&P") has assigned the Certificates a rating of "AAA," Moody's Investors Service, Inc. ("Moody's") has assigned the Certificates a rating of "Aaa" and Fitch Ratings ("Fitch") has assigned the Certificates a rating of "AAA," with the understanding that the Insurer will issue a Financial Guaranty Insurance Policy concurrently with the execution and delivery of the Certificates. Such ratings reflect only the views of S&P, Moody's and Fitch and do not constitute a recommendation to buy, sell or hold the Certificates. Explanation of the significance of such ratings may be obtained only from the respective organizations at: Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041, (212) 208-8000, Moody's Investors Service, Inc. 99 Church Street, New York, New York 10007-2796, telephone number (212) 553-0317 and Fitch Ratings, One State Street Plaza, New York, New York 10004, telephone number (212) 908-0500. There is no assurance that any such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the respective rating

agencies, if in the judgment of any such rating agency circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Certificates.

UNDERWRITING

The Certificates are being purchased by Morgan Stanley & Co. Incorporated, A.G. Edwards & Sons, Inc. and Estrada Hinojosa & Company, Inc. (the "Underwriters"), pursuant to a Purchase Contract with the County (the "Purchase Contract"). The Underwriters have agreed, subject to certain conditions, to purchase the Certificates at a price of \$26,481,649.98 (representing the principal amount of the Certificates, plus net original issue premium of \$644,020.55, less an Underwriter's discount of \$222,370.57). The Purchase Contract relating to the Certificates provides that the Underwriters will purchase all of the Certificates if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions. The Underwriters may offer and sell the Certificates to certain dealers and others at prices lower than the offering prices stated on the cover page. The offering prices may be changed from time to time by the Underwriters.

FINANCIAL ADVISOR

RBC Dain Rauscher Inc. served as the Financial Advisor to the County in connection with the execution and delivery of the Certificates. The Financial Advisor has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness, of the information contained in this Official Statement.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement with the trustee, acting as Dissemination Agent (the "Disclosure Agreement"), the County has agreed to provide, or cause to be provided by no later than 180 days after the end of the prior fiscal year (commencing with the report for the County's fiscal year ended June 30, 2002), to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (each, a "Repository") certain annual financial information and operating data, including its audited financial statements and information of the type set forth in this Official Statement under the headings "County Financial Information" and "San Diego County Investment Pool". In addition, the County has agreed to provide, or cause to be provided, to each Repository in a timely manner notice of the following "Listed Events" if determined by the County to be material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on the debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Certificates; (7) modifications to rights of holders of the Certificates; (8) optional, contingent or unscheduled Certificate calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates; and (11) rating changes. These covenants have been made in order to assist the Underwriters in complying with SEC Rule 15c2-12(b)(5) (the "Rule"). The County has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

The County and the Dissemination Agent may amend the Disclosure Agreement, and waive any provision thereof (and the Dissemination Agent shall agree to any amendment so requested by the County, so long as such amendment does not adversely affect the rights or obligations of the Dissemination Agent), by written agreement of the parties, without the consent of the Owners of the Certificates, if all of the following conditions are satisfied: (a) if the amendment or waiver relates to the provisions governing the provision and

content of the annual report or Listed Events, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Certificates, or the type of business conducted; (b) the Disclosure Agreement as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original execution and delivery of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (c) the amendment or waiver either (i) is approved by the holders of the Certificates in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Certificates. The County shall describe such amendment or waiver and the reason therefor in its next annual report filed with the Repositories.

In addition, the County's obligations under the Disclosure Agreement shall terminate upon a legal defeasance, prior prepayment or payment in full of all of the Certificates. The provisions of the Disclosure Agreement are intended to be for the benefit of the owners of the Certificates and beneficial owners of the Certificates and shall be enforceable by the Trustee on behalf of such owners and any owners of Certificates, provided that any enforcement action by any such person shall be permitted to a right to obtain specific enforcement of the County's obligations under the Disclosure Agreement and any failure by the County to comply with the provisions thereof shall not be an event of default under the Trust Agreement.

MISCELLANEOUS

Included herein are brief summaries of certain documents and reports, which summaries do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the County and the purchasers or Owners of any of the Certificates.

The execution and delivery of this Official Statement has been duly authorized by the County.

COUNTY OF SAN DIEGO

By: /s/ William B. Kelly
Chief Financial Officer/Auditor and
Controller

Dated: February 27, 2002

APPENDIX A

ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING THE COUNTY OF SAN DIEGO

General

The County of San Diego (the "County") is the southernmost major metropolitan area in the State of California. The County covers 4,255 square miles, extending 70 miles along the Pacific Coast from the Mexican border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange counties form the northern boundary. The County is approximately the size of the State of Connecticut.

Topography of the County varies from broad coastal plains and fertile inland valleys to mountain ranges in the east which rise to an elevation of 6,500 feet. Eastern slopes of these mountains form the rim of the Anza-Borrego Desert and the Imperial Valley. The Cleveland National Forest occupies much of the interior portion of the County. The climate is equable in the coastal and valley regions where most of the population and resources are located. The average annual rainfall in the coastal areas is approximately 10 inches.

The County possesses a diverse economic base consisting of a significant manufacturing presence in the fields of electronics and shipbuilding, a large tourist industry attracted by the favorable climate of the region, and a considerable defense-related presence which contributes approximately \$10 billion annually to the retail and service businesses of the area.

The County is also growing as a major center for culture and education. Over 30 recognized art organizations, including the San Diego Opera, the Old Globe Theatre productions, the La Jolla Chamber Orchestra, as well as museums and art galleries, are located in the County. Higher education is provided through five two-year colleges and six four-year colleges and universities.

The San Diego Convention Center, containing 354,000 square feet of exhibit space and over 100,000 square feet of meeting/banquet rooms began operation in November 1989. The Convention Center can accommodate events for 30,000 to 40,000 people. During 1990, its first year of operation, 354 events were held, attracting 1.1 million guests. An estimated 280,000 of these guests were from out of town. Major conventions and trade shows are scheduled into the year 2009.

In addition to the City of San Diego, other principal cities in the County include Carlsbad, Chula Vista, Oceanside, El Cajon, Escondido, La Mesa and National City. Most County residents live within 20 miles of the coast. Farther inland are agricultural areas, principally planted in avocados and tomatoes, while the easternmost portion of the County has a dry, desert-like topography.

The County is the delivery system for federal, state and local programs. The County provides a wide range of services to its residents including: (i) regional services such as courts, probation, medical examiner, jails, elections and public health; (ii) health, welfare and human services such as mental health, senior citizen and child welfare services; (iii) basic local services such as planning, parks, libraries and Sheriff's patrol to the unincorporated area, and law enforcement and libraries by contract to incorporated cities; and (iv) infrastructure such as roads, waste disposal and flood control to the unincorporated area of the County.

County Government

The County was incorporated on February 18, 1850, and functions under a charter adopted in 1933, as subsequently amended from time to time. The County is governed by a five-member Board of Supervisors elected to four-year terms in district nonpartisan elections. The Board of Supervisors appoints the Chief Administrative Officer and the County Counsel. The Chief Administrative Officer appoints the Chief Financial Officer. Elected officials include Assessor/Recorder/County Clerk, District Attorney, Sheriff and Treasurer-Tax Collector.

Growth Management

The County has fostered a regional growth management plan rather than development limitations. The current regional growth management effort was approved by the voters in November 1988 as Proposition C, the only one of five growth-related measures on the ballot to be approved. It provides for a voluntary planning process to help define, plan, and prepare for the impacts of growth on a regional basis. Representatives of the County and each of the 18 incorporated cities within the County agreed to a growth management board that came into being in 1990 through an amendment to the SANDAG joint powers agreement designating SANDAG as the board. The board has no power to limit growth in any jurisdiction.

Population

There are 18 incorporated cities in the County, and a number of unincorporated communities. The County is the tenth largest county in the nation based on 2000 Census data and the fastest growing county in California. The County population as of January, 2001 was estimated to be approximately 2,883,600 million, making the County the third largest County by population in California and the sixteenth largest Metropolitan Statistical Area in the United States. The 2001 population increased 1.7% from 2000.

Population in the County is expected to grow to over 3.2 million people by the year 2005, to over 3.6 million people by 2015, and to over 3.9 million people by 2020 which is a 35% increase over this twenty year period.

The City of San Diego is the largest city within the County and is the sixth largest city in the nation, and had a population of approximately 1,250,700 as of January 1, 2001.

The following table shows changes in the population in the County, the State and the United States for the ten year period 1991 to 2001.

POPULATION ESTIMATES⁽¹⁾

<u>Year</u>	<u>San Diego County (000)</u>	<u>Percent Change</u>	<u>State of California (000)</u>	<u>Percent Change</u>	<u>United States (000)</u>	<u>Percent Change</u>
1991	2,589	---	30,945	---	253,419	--
1992	2,628	1.51%	31,478	1.72%	256,304	1.14%
1993	2,646	.68	31,858	1.21	258,939	1.03
1994	2,653	.26	32,075	.68	261,431	.96
1995	2,657	.15	32,223	.46	263,909	.95
1996	2,662	.19	32,396	.54	266,398	.94
1997	2,692	1.13	32,743	1.07	268,930	.95
1998	2,741	1.82	33,186	1.35	271,387	.91
1999	2,789	1.75	33,660	1.43	273,828	.90
2000	2,835	1.65	34,207	1.63	276,059	.81
2001	2,883	1.69	34,818	1.79	281,426	1.94

Sources: State of California Department of Finance; U.S. Bureau of the Census.

⁽¹⁾ As of January 1 of the year shown.

Employment

The County's total labor force, the number of persons who work or are available for work, was approximately 1,445,100 as of December 2000. The number of employed workers in the labor force was approximately 1,398,100. The total work age population (15 to 64 years old) employed in the labor force is expected to increase. The following table sets forth information regarding the size of the labor force, employment and unemployment rates for the County, the State and the United States for the years 1997 through 2001.

LABOR FORCE – EMPLOYMENT AND UNEMPLOYMENT*
ANNUAL AVERAGES 1997-2001
By Place of Residence
(in Thousands)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001⁽¹⁾</u>
County of San Diego					
Labor Force	1,285.0	1,321.0	1,361.6	1,404.9	1,445.1
Employment	1,230.8	1,274.6	1,319.6	1,362.9	1,398.1
Unemployment Rate	4.2%	3.5%	3.1%	3.0%	3.3%
State of California					
Labor Force	15,947.3	16,336.5	16,596.5	17,090.8	17,435.8
Employment	14,942.5	15,367.5	15,731.7	16,245.6	16,448.1
Unemployment Rate	6.3%	5.9%	5.2%	4.9%	5.7%
United States					
Labor Force	137,155.0	138,624.0	140,213.0	141,544.0	142,314.0
Employment	130,674.0	132,517.0	134,513.0	135,888.0	134,055.0
Unemployment Rate	4.7%	4.4%	4.1%	4.0%	4.0%

Sources: State Data - California Employment Development Department; National Data – U.S. Department of Labor, Bureau of Labor Statistics.

* Data not seasonally adjusted; March 2000 Benchmark.

⁽¹⁾ Data for December, 2001.

Employment by industry statistics for San Diego County are tabulated on a major statistical area basis (the "MSA"). Non-agricultural employment totaled 1,248,500 as of December, 2001. The services industry constitutes the largest employment sector and accounts for approximately 33.8% of nonagricultural employment for 2001, with a total of 422,100 employed.. The wholesale and retail trade sector was the second largest employment sector in 2001, with a total employment of \$279,500, which is approximately 22.4% of total non-agricultural employment.

During 2001, government employment accounted for approximately 17.7% of total employment and manufacturing accounted for an additional 10.3%. The construction and transportation sectors of employment are greatly influenced by the general health of the economy due to the fact that they serve exclusively the local market. These two sectors are therefore directly influenced by the growth of population and housing.

The following table sets forth the annual average employment within the County, by employment sector, for the years 1997 through 2001.

**SAN DIEGO COUNTY
NON-AGRICULTURAL LABOR FORCE AND INDUSTRY EMPLOYMENT
ANNUAL AVERAGES
1997-2001
By Place of Work
(in Thousands)**

<u>Employment Sector</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001⁽¹⁾</u>
Mining	0.4	0.3	0.3	0.4	0.3
Transportation Public Utilities and Communications	41.6	47.0	51.3	50.9	50.6
Construction	53.0	61.8	67.0	70.4	74.3
Manufacturing	123.1	127.6	128.1	129.7	128.7
Wholesale and Retail Trade	244.0	249.4	256.5	267.8	279.5
Finance, Insurance and Real Estate	60.9	65.3	68.7	69.8	71.6
Services	339.3	359.6	381.7	400.6	422.1
Government	192.0	194.5	199.3	206.8	221.4
Total, All Non- Farm Industries	1,054.2	1,105.5	1,152.9	1,196.5	1,248.5

Sources: California Employment Development Department.

⁽¹⁾ Data for December, 2001.

The following table sets forth the major employers in the County as of December 31, 1999:

SAN DIEGO COUNTY LARGEST EMPLOYERS

<u>Firm</u>	<u>Service/Product</u>
10,000 OR MORE EMPLOYEES:	
Federal Government State of California	Government
University of California, San Diego	Higher Education
County of San Diego	Government
San Diego Unified School District	Education
City of San Diego	Government
5,000-9,999 EMPLOYEES:	
Sharp Healthcare Corp.	Healthcare
U.S. Postal Service	Postal Service
QUALCOMM, Inc.	Telecommunications
Kaiser Permanente Medical Group	Healthcare
Scripps Health	Healthcare
Pacific Bell	Telecommunications
3,000-4,999 EMPLOYEES:	
Science Applications International Corp.	Technology Services
Albertson's Inc	Retail Food Chain
Sempra Energy	Utilities
San Diego State University	Higher Education
Sony Technology Center	Communication-Wireless
Palomar Pomerado Health Systems	Healthcare
United Parcel Service	Mail Delivery Service
National Steel & Shipbuilding Co.	Shipbuilders and Repairers
Ace Parking	Parking Stations and Garages
2,000-2,999 EMPLOYEES:	
Scripps Research Institute	Research
Grossmont-Cuyamaca Community College	Education
Palomar Community College	Education
City of Chula Vista	Government
Children's Hospital & Health Center	Healthcare
Callaway Golf Co.	Recreation Manufacturer
Hewlett Packard Company	Electronic Instruments Manufacturer
Cajon Valley Union School District	Education

Source: San Diego County Chamber of Commerce.

Regional Economy

In recent years the County has enjoyed economic stability, out pacing the State economy despite a general recession in the State. Much of this strength was evidenced by and due to outstanding employment gains, population growth, personal income increases, and high levels of commercial and industrial development.

The GRP for 2001 rose to \$117.2 billion from \$110.1 billion in 2000. The GRP is an estimate of the value for all goods and services produced in the region. The following table presents the County's GRP from 1996 through 2001.

**COUNTY OF SAN DIEGO
GROSS REGIONAL PRODUCT
1996-2001**

<u>Year</u>	<u>Gross Regional Product (Billion \$)</u>	<u>Annual Percent Change Current Dollars San Diego</u>	<u>Real Change* San Diego</u>
1996	79.4	5.9%	4.2%
1997	86.1	8.4	6.7
1998	92.6	7.6	6.7
1999	101.4	9.5	5.8
2000	110.1	8.6	6.4
2001 ⁽¹⁾	117.2	6.5	3.5

Sources: Bureau of Economic Analysis; Economic Research Bureau of the San Diego Regional Chamber of Commerce.

* Adjusted using the GDP/GSP Implicit Price Deflator.

⁽¹⁾ Forecast only.

Economic activity and population growth in the local economy are closely related. Helping to sustain the County's economy is the performance of three basic industries of the region, which consist of manufacturing, the military, and tourism. The U.S. Department of Defense contributes about \$10 billion annually to the local economy, through wages paid to the uniformed military and civilian personnel, and for equipment and services purchased from local businesses. San Diego's military presence is anticipated to remain relatively stable and may even increase due to the consolidation of military operations and facilities from elsewhere in California, the West, and throughout the United States. The Department of Defense closed and vacated the Naval Training Center in 1997. However, three procurement agencies have recently relocated to San Diego, including the Naval Space and Warfare Systems Command, the Naval Aviation Engineering Servicing Unit, which hires private contractors to service jets, and the Naval Aviation Technical Service Facility, which stores approximately 10 million jet blueprints.

Building Activity

Building permit valuation for both residential and non-residential construction in the County in 2000 increased over 1999 levels by 1.78%. Even though measures limiting new housing remain in effect in areas throughout the County, residential valuations increased 0.75%. Non-residential valuations increased 4.11%. This increase in valuations is attributable to the construction of \$25.9 million in hotel projects and \$72.8 million in new office building and parking structure projects.

Annual total building permit valuation and the annual unit total of new residential permits from 1995 through 2000 are shown in the following table.

**COUNTY OF SAN DIEGO
BUILDING PERMIT ACTIVITY
1997-2001
(in Thousands)**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Valuation					
Residential	\$2,032,771	\$2,314,056	\$2,985,960	\$3,008,209	\$3,169,514
Non-Residential	<u>958,229</u>	<u>1,211,275</u>	<u>1,336,628</u>	<u>1,391,497</u>	<u>1,189,910</u>
Total	<u>\$2,991,000</u>	<u>\$3,525,331</u>	<u>\$4,322,588</u>	<u>\$4,399,706</u>	<u>\$4,359,424</u>
New Housing Units					
Single Family	8,338	9,160	9,993	9,166	9,331
Multiple Family	<u>3,064</u>	<u>3,013</u>	<u>6,434</u>	<u>6,760</u>	<u>6,319</u>
Total	<u>\$ 11,402</u>	<u>\$ 12,173</u>	<u>\$ 16,427</u>	<u>\$ 15,926</u>	<u>\$ 15,650</u>

Source: Construction Industry Research Board.

Commercial Activity

Consumer spending for Calendar Year 2000 resulted in approximately \$36,245,418 in taxable sales in the County. The following table sets forth information regarding taxable sales in the County for Calendar Years 1996-2000.

**COUNTY OF SAN DIEGO
TAXABLE SALES
Calendar Years 1996-2000
(000's Omitted)**

<u>Type of Business</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Apparel Stores	\$ 864,819	\$ 926,657	\$ 1,029,691	\$ 1,050,003	\$ 946,351
General Merchandise	3,088,863	3,285,977	3,561,551	3,966,854	3,584,108
Specialty stores	2,473,042	2,739,312	2,991,422	3,311,320	3,663,924
Food and Liquor Stores	1,396,132	1,337,330	1,375,365	1,469,238	1,557,244
Home Furnishings/Appliances	898,482	858,165	955,772	1,085,001	1,237,271
Eating and Drinking					
Establishments	2,385,143	2,523,340	2,714,916	2,929,084	3,211,306
Building Materials Group	1,204,684	1,466,965	1,671,507	1,882,514	2,104,100
Automotive	4,623,162	4,728,592	5,041,798	5,868,743	6,955,856
All Other Retail Stores	207,058	535,973	594,504	672,926	733,653
Business and Personal					
Services	1,373,745	1,538,544	1,703,325	1,863,511	1,954,589
All Other Outlets	<u>6,623,435</u>	<u>7,467,671</u>	<u>7,976,153</u>	<u>8,653,211</u>	<u>9,337,740</u>
TOTAL ALL OUTLETS	<u>\$25,138,565</u>	<u>\$27,408,526</u>	<u>\$29,616,004</u>	<u>\$32,752,405</u>	<u>\$36,245,418</u>

Source: California State Board of Equalization, Taxable Sales in California.

Personal Income

The following table summarizes the total effective buying income and the median household effective buying income for the County, the State, and the United States between 1995 and 2000.

COUNTY OF SAN DIEGO PERSONAL INCOME For Years 1995 through 1999

<u>Year and Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
<u>1995</u>		
San Diego County	45,541,671	33,679
California	477,640,503	34,533
United States	3,964,285,118	32,238
<u>1996</u>		
San Diego County	40,913,543	34,445
California	492,516,991	35,216
United States	4,161,512,384	33,482
<u>1997</u>		
San Diego County	43,212,824	35,725
California	524,439,600	36,483
United States	4,399,998,035	34,618
<u>1998</u>		
San Diego County	46,056,143	36,296
California	551,999,317	37,091
United States	4,621,491,730	35,377
<u>1999</u>		
San Diego County	49,907,828	39,213
California	590,376,663	39,492
United States	4,877,786,658	37,233
<u>2000</u>		
San Diego County	54,337,662	44,292
California	652,190,282	44,464
United States	5,230,824,904	39,129

Source: Sales and Marketing Management – Survey of Buying Power.

Transportation

Surface, sea and air transportation facilities serve County residents and businesses. Interstate 5 parallels the coast from Mexico to the Los Angeles area and points north. Interstate 15 runs inland, leading to Riverside-San Bernardino, Las Vegas, and Salt Lake City. Interstate 8 runs eastward through the southern United States.

San Diego's International Airport (Lindbergh Field) is located approximately one mile west of the downtown area at the edge of San Diego Bay. The facilities are owned and maintained by the San Diego Unified Port District and are leased to commercial airlines and other tenants. The airport is California's third most active commercial airport, served by 20 major airlines. In addition to San Diego International Airport there are two naval air stations and seven general aviation airports located in the County.

Public transit in the metropolitan area is provided by the Metropolitan Transit Development Board. The San Diego Trolley, developed by the Metropolitan Transit Development Board beginning in 1979, has been expanded. A total of 17.6 miles were added to the original 108 miles; construction was completed in 1990.

San Diego is the terminus of the Santa Fe Railway's main line from Los Angeles. Amtrak passenger service is available at San Diego, with stops at Del Mar and Oceanside in the North County.

San Diego's harbor is one of the world's largest natural harbors. The Port of San Diego is administered by the San Diego Unified Port District, which includes the cities of San Diego, National City, Chula Vista, Imperial Beach, and Coronado.

Visitor and Convention Activity

An excellent climate, proximity to Mexico, extensive maritime facilities, and such attractions as the San Diego Zoo and Wild Animal Park, Sea World, Cabrillo National Monument, and Palomar Observatory allow San Diego to attract a high level of visitor and convention business each year. Contributing to the growth of visitor business has been the development of the 4,600-acre Mission Bay Park at San Diego and the construction of meeting and convention facilities at the San Diego Community Concourse.

San Diego's visitor industry is a major sector of the region's economy. Visitor revenues in San Diego County reached approximately \$5.2 billion in 2000, according to an estimate by the San Diego Convention and Visitors Bureau, an increase of approximately \$5.0 million from the prior year. The County hosted 51 conventions and trade shows in 2000, attended by approximately 261,590 delegates, who spent approximately \$248,127,238.

Education

Forty-two independent school districts provide educational programs for the elementary and secondary public school children in the County. Each school system is governed by a locally elected board of education and administered by a superintendent or other chief administrative officer appointed by the board. In the County there are three types of school districts: elementary, union high and unified. Elementary districts educate elementary students, union high districts educate for the most part secondary students, and unified districts educate both elementary and secondary students. There are currently 12 unified, 24 elementary and 6 union high school districts in the County.

Community colleges in California are locally operated and administered two-year institutions of higher education. They offer Associates in Arts and Associates in Science degrees and have extensive vocational curricula. There are five community college districts in the County with students at eleven campuses and numerous adult and community centers.

Among the institutions of higher education offering bachelors and graduate programs in metropolitan San Diego are San Diego State University, the University of California at San Diego, National University, the University of San Diego, Point Loma College, California State University - San Marcos, United States International University, and the University of Phoenix.

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APPENDIX B

COUNTY OF SAN DIEGO AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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750 B Street
San Diego, CA 92101

Independent Auditors' Report

The Honorable Board of Supervisors of the
County of San Diego:

We have audited the accompanying general purpose financial statements of the County of San Diego, California (the County) as of and for the year ended June 30, 2001, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the management of the County. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the County of San Diego, California as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types, and the changes in net assets of its pension trust fund and investment trust fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

December 28, 2001



COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001
With Comparative Figures for June 30, 2000
(In Thousands)

	GOVERNMENTAL FUND TYPES			
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
ASSETS AND OTHER DEBITS				
Equity in Pooled Cash and Investments	\$ 391,846	334,035	2,202	10,296
Cash with Fiscal Agent	186,043	1,793	36,082	35,510
Collections in Transit	2,198	5,667		
Imprest Cash	312	17		
Investments	2			
Taxes Receivable	102			
Accounts and Notes Receivable	158,558	111,301	238	814
Due from Other Funds	198,025	15,381	94	15,907
Advances to Other Funds	689	157	478	
Inventory of Materials and Supplies	8,070	3,070		
Deposits with Others		127		
Restricted Assets:				
Investments		81,830		
Fixed Assets, Net				
Amount Available in Debt Service Funds				
Amount to be Provided for Retirement of				
General Long-Term Debt				
Total Assets and Other Debits	\$ 945,845	553,378	39,094	62,534
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts Payable	\$ 35,011	10,820		1,307
Accrued Payroll	29,874	1,662		
Accrued Interest				
Amount Due for Tax & Revenue Anticipation Notes	179,147			
Due to Other Funds	43,115	85,991	307	22,551
Obligations Under Securities Lending				
Due to Other Governments				
Advances from Other Funds		371	287	10,331
Amount Due for Commercial Paper Notes				
Deferred Revenue	40,414	10,075		5,810
Long-Term Debt Payable				
Total Liabilities	327,561	108,919	594	39,999
Equity and Other Credits:				
Investment in General Fixed Assets				
Contributed Capital				
Retained Earnings:				
Unreserved				
Fund Balances:				
Reserved for Encumbrances	99,848	67,741		160
Reserved for Notes Receivable and Advances	7,000	24,070		
Reserved for Deposits with Others		127		
Reserved for Inactive Landfill Maintenance		101,414		
Reserved for Inventory of Materials and Supplies	8,070	344		
Reserved for Debt Service			38,500	
Reserved for Pool Participants				
Reserved for Employees' Pension Benefits				
Reserved for Other Purposes	152,173	35,305		
Unreserved:				
Designated for Subsequent Years' Expenditures	125,290	86		
Undesignated	225,903	215,372		22,375
Total Equity and Other Credits	618,284	444,459	38,500	22,535
Total Liabilities, Equity and Other Credits	\$ 945,845	553,378	39,094	62,534

See Notes to General Purpose Financial Statements

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 2001

With Comparative Figures for June 30, 2000

(In Thousands)

PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES	ACCOUNT GROUPS		STATEMENT 1A TOTALS (MEMORANDUM ONLY)	
ENTERPRISE	INTERNAL SERVICE	TRUST AND AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	2001	2000
67,662	145,189	1,814,121			2,765,351	2,283,568
		144,471			403,899	504,565
7	2,922	12,855			23,649	13,425
2	201	39			571	520
		3,954,245			3,954,247	4,242,134
		215,237			215,339	213,266
408	2,021	73,574			346,914	306,243
1,972	23,772	66,846			321,997	202,648
9,772	207				11,303	5,359
118	2,166				13,424	13,335
					134	134
68,112	75,650	1,503	1,267,762		81,830	102,014
				38,500	1,413,027	1,365,895
					38,500	32,499
148,053	252,128	6,282,891	1,267,762	1,000,951	1,000,951	1,085,105
				1,039,451	10,591,136	10,370,710
1,791	13,096	145,769			207,794	140,072
139	829				32,504	30,829
						1
741	59,674	109,618			179,147	131,607
		183,184			321,997	202,648
1,417		502,537			183,184	206,065
314					503,954	685,058
		63,856			11,303	5,359
102	2				63,856	71,630
503	92,649				56,403	23,819
5,007	166,250	1,004,964		1,039,451	1,132,603	1,189,888
				1,039,451	2,692,745	2,686,976
44,456	57,458		1,267,762		1,267,762	1,236,708
					101,914	101,915
98,590	28,420				127,010	106,950
					167,749	115,980
					31,070	26,044
					127	54
					101,414	104,224
					8,414	7,967
					38,500	32,499
		1,461,060			1,461,060	1,318,081
		3,816,867			3,816,867	4,272,606
					187,478	
					125,376	88,852
143,046	85,878	5,277,927	1,267,762		463,650	271,854
					7,898,391	7,683,734
148,053	252,128	6,282,891	1,267,762	1,039,451	10,591,136	10,370,710

See Notes to General Purpose Financial Statements

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES**

Year Ended June 30, 2001

With Comparative Figures for Year Ended June 30, 2000

(In Thousands)

	GENERAL FUND	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	STATEMENT 1B TOTALS (MEMORANDUM ONLY)	
					2001	2000
Revenues:						
Taxes	\$ 340,769	89,550	540	1,609	432,468	344,393
Licenses, Permits and Franchises	24,751	10,045			34,796	31,796
Fines, Forfeitures and Penalties	29,511	1,624		9,004	40,139	36,235
Revenue from Use of Money and Property	39,176	27,751	1,836	5,481	74,244	48,519
Aid from Other Governmental Agencies:						
State	773,424	426,933		1,693	1,202,050	1,070,475
Federal	423,066	64,466		1,405	488,937	454,968
Other	37,304	5,531	4,531	800	48,166	49,570
Charges for Current Services	198,522	22,374		2,400	223,296	209,400
Other Revenue	31,905	5,025		284	37,214	28,782
Total Revenues	1,898,428	653,299	6,907	22,676	2,581,310	2,274,138
Expenditures:						
Current:						
General	134,357	2,357			136,714	150,879
Public Protection	706,978	21,234			728,212	667,565
Public Ways and Facilities	2,819	81,113			83,932	72,721
Health and Sanitation	432,210	22,418			454,628	370,379
Public Assistance	692,983	54,447			747,430	737,284
Education	501	18,120			18,621	14,263
Recreational and Cultural	11,833	1,269			13,102	12,393
Capital Outlay				57,723	57,723	55,239
Debt Service	12,581	2,528	124,891		140,000	110,221
Total Expenditures	1,994,262	203,486	124,891	57,723	2,380,362	2,190,944
Excess of Revenues Over (Under) Expenditures	(95,834)	449,813	(117,984)	(35,047)	200,948	83,194
Other Financing Sources (Uses):						
Sale of Fixed Assets	14	19		2,825	2,858	1,277
Long Term Debt Proceeds		3,584			3,584	70,461
Proceeds of Lease Purchase Financing Instruments						1,654
Operating Transfers In	360,791	86,646	126,969	87,478	661,884	250,127
Operating Transfers (Out)	(135,296)	(441,786)	(2,984)	(81,115)	(661,181)	(258,057)
Proceeds of Refunding Bonds		454	17,946		18,400	14,988
Payment to Refunded Bond Escrow Agent		(454)	(17,946)		(18,400)	(14,988)
Total Other Financing Sources (Uses)	225,509	(351,537)	123,985	9,188	7,145	65,462
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	129,675	98,276	6,001	(25,859)	208,093	148,656
Fund Balances - Beginning of Year	495,367	346,119	32,499	48,394	922,379	515,070
Equity Conveyed to Other Entities						
Residual Equity Transfers (Out)	(7,141)				(7,141)	(16,268)
Increase (Decrease) in:						
Reserve for Inventory of Materials and Supplies	383	64			447	16
Fund Balances - End of Year	\$ 618,284	444,459	38,500	22,535	1,123,778	647,474

See Notes to General Purpose Financial Statements

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS
ALL GOVERNMENTAL FUND TYPES
Year Ended June 30, 2001
(In Thousands)

	GENERAL FUND		STATEMENT 1C
	Actual on Budgetary Basis	Budget	Variance Favorable (Unfavorable)
Revenues:			
Taxes	\$ 340,769	337,436	3,333
Licenses, Permits and Franchises	24,751	22,872	1,879
Fines, Forfeitures and Penalties	29,511	27,642	1,869
Revenue from Use of Money and Property	36,877	23,939	12,938
Aid from Other Governmental Agencies:			
State	773,424	876,461	(103,037)
Federal	423,066	407,581	15,485
Other	37,304	37,446	(142)
Charges for Current Services	198,522	188,205	10,317
Other Revenue	31,905	46,846	(14,941)
Total Revenues	1,896,129	1,968,428	(72,299)
Expenditures:			
Current:			
General	142,584	203,207	60,623
Public Protection	719,296	779,068	59,772
Public Ways and Facilities	4,268	20,639	16,371
Health and Sanitation	447,476	521,622	74,146
Public Assistance	700,198	805,855	105,657
Education	503	523	20
Recreational and Cultural	14,009	15,358	1,349
Capital Outlay			
Debt Service	12,581	12,581	
Total Expenditures	2,040,915	2,358,853	317,938
Excess of Revenues Over (Under) Expenditures	(144,786)	(390,425)	245,639
Other Financing Sources (Uses):			
Sale of Fixed Assets	14		14
Operating Transfers In	360,791	361,171	(380)
Operating Transfers (Out)	(188,491)	(197,196)	8,705
Long Term Debt Proceeds			
Encumbrances, Beginning of Year	91,888	91,888	
Total Other Financing Sources (Uses)	264,202	255,863	8,339
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	119,416	(134,562)	253,978
Fund Balances - Beginning of Year	261,250	261,250	
Equity Conveyed to Other Entities			
Residual Equity Transfers (Out)	(7,141)	(7,141)	
Increase (Decrease) in:			
Reserve for Inventory of Materials and Supplies	383		383
Fund Balances - End of Year	\$ 373,908	119,547	254,361

(Cont)

See Notes to General Purpose Financial Statements

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**(BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS****ALL GOVERNMENTAL FUND TYPES****Year Ended June 30, 2001****(In Thousands)****STATEMENT 1C (Cont)****SPECIAL REVENUE FUNDS**

	Actual on Budgetary Basis	Budget	Variance Favorable (Unfavorable)
Revenues:			
Taxes	\$ 89,550	72,898	16,652
Licenses, Permits and Franchises	10,045	8,718	1,327
Fines, Forfeitures and Penalties	1,624	1,117	507
Revenue from Use of Money and Property	24,635	6,573	18,062
Aid from Other Governmental Agencies:			
State	426,934	436,364	(9,430)
Federal	64,466	97,470	(33,004)
Other	5,505	3,457	2,048
Charges for Current Services	22,374	35,728	(13,354)
Other Revenue	4,997	5,029	(32)
Total Revenues	650,130	667,354	(17,224)
Expenditures:			
Current:			
General	1,691	1,944	253
Public Protection	21,860	32,434	10,574
Public Ways and Facilities	107,499	145,809	38,310
Health and Sanitation	57,887	73,722	15,835
Public Assistance	54,447	90,183	35,736
Education	21,963	24,961	2,998
Recreational and Cultural	2,133	5,800	3,667
Capital Outlay			
Debt Service			
Total Expenditures	267,480	374,853	107,373
Excess of Revenues Over (Under) Expenditures	382,650	292,501	90,149
Other Financing Sources (Uses):			
Sale of Fixed Assets	19		19
Operating Transfers In	7,926	8,086	(160)
Operating Transfers (Out)	(366,901)	(381,046)	14,145
Long Term Debt Proceeds	3,584	3,584	
Encumbrances, Beginning of Year	24,051	24,051	
Total Other Financing Sources (Uses)	(331,321)	(345,325)	14,004
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	51,329	(52,824)	104,153
Fund Balances - Beginning of Year	182,276	182,276	
Equity Conveyed to Other Entities	-		
Residual Equity Transfers (Out)	-		
Increase (Decrease) in:			
Reserve for Inventory of Materials and Supplies	64		64
Fund Balances - End of Year	\$ 233,669	129,452	104,217

(Cont)

See Notes to General Purpose Financial Statements

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS
ALL GOVERNMENTAL FUND TYPES
Year Ended June 30, 2001
(In Thousands)

	STATEMENT 1C (Cont)		
	DEBT SERVICE FUNDS		
	Actual on Budgetary Basis	Budget	Variance Favorable (Unfavorable)
Revenues:			
Taxes	\$ 540	418	122
Licenses, Permits and Franchises			
Fines, Forfeitures and Penalties			
Revenue from Use of Money and Property	118	66	52
Aid from Other Governmental Agencies:			
State			
Federal			
Other	4,531	4,509	22
Charges for Current Services			
Other Revenue			
Total Revenues	5,189	4,993	196
Expenditures:			
Current:			
General			
Public Protection			
Public Ways and Facilities			
Health and Sanitation			
Public Assistance			
Education			
Recreational and Cultural			
Capital Outlay			
Debt Service	51,954	52,020	66
Total Expenditures	51,954	52,020	66
Excess of Revenues Over (Under) Expenditures	(46,765)	(47,027)	262
Other Financing Sources (Uses):			
Sale of Fixed Assets			
Operating Transfers In	47,021	46,994	27
Operating Transfers (Out)			
Long Term Debt Proceeds			
Encumbrances, Beginning of Year			
Total Other Financing Sources (Uses)	47,021	46,994	27
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	256	(33)	289
Fund Balances - Beginning of Year	1,238	1,238	
Equity Conveyed to Other Entities			
Residual Equity Transfers (Out)			
Increase (Decrease) in:			
Reserve for Inventory of Materials and Supplies			
Fund Balances - End of Year	\$ 1,494	1,205	289

(Cont)

See Notes to General Purpose Financial Statements

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**(BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS****ALL GOVERNMENTAL FUND TYPES****Year Ended June 30, 2001****(In Thousands)****STATEMENT 1C (Cont)****CAPITAL PROJECTS FUNDS**

	Actual on Budgetary Basis	Budget	Variance Favorable (Unfavorable)
Revenues:			
Taxes	\$ 1,609	7,155	(5,546)
Licenses, Permits and Franchises			
Fines, Forfeitures and Penalties	9,004	9,484	(480)
Revenue from Use of Money and Property	2,138	685	1,453
Aid from Other Governmental Agencies:			
State	1,693	54,115	(52,422)
Federal	1,405	4,657	(3,252)
Other	800	838	(38)
Charges for Current Services	2,400	4,630	(2,230)
Other Revenue	284	4,101	(3,817)
Total Revenues	19,333	85,665	(66,332)
Expenditures:			
Current:			
General			
Public Protection			
Public Ways and Facilities			
Health and Sanitation			
Public Assistance			
Education			
Recreational and Cultural			
Capital Outlay	39,016	175,111	136,095
Debt Service			
Total Expenditures	39,016	175,111	136,095
Excess of Revenues Over (Under) Expenditures	(19,683)	(89,446)	69,763
Other Financing Sources (Uses):			
Sale of Fixed Assets	2,825	9,809	(6,984)
Operating Transfers In	87,218	146,357	(59,139)
Operating Transfers (Out)	(68,852)	(68,887)	35
Long Term Debt Proceeds			
Encumbrances, Beginning of Year	41	41	
Total Other Financing Sources (Uses)	21,232	87,320	(66,088)
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	1,549	(2,126)	3,675
Fund Balances - Beginning of Year	(67)	(67)	
Equity Conveyed to Other Entities			
Residual Equity Transfers (Out)			
Increase (Decrease) in:			
Reserve for Inventory of Materials and Supplies			
Fund Balances - End of Year	\$ 1,482	(2,193)	3,675

(Cont)

See Notes to General Purpose Financial Statements

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS
ALL GOVERNMENTAL FUND TYPES
Year Ended June 30, 2001
(In Thousands)

	STATEMENT 1C (Cont)		
	TOTALS (MEMORANDUM ONLY)		
	Actual on Budgetary Basis	Budget	Variance Favorable (Unfavorable)
Revenues:			
Taxes	\$ 432,468	417,907	14,561
Licenses, Permits and Franchises	34,796	31,590	3,206
Fines, Forfeitures and Penalties	40,139	38,243	1,896
Revenue from Use of Money and Property	63,768	31,263	32,505
Aid from Other Governmental Agencies:			
State	1,202,051	1,366,940	(164,889)
Federal	488,937	509,708	(20,771)
Other	48,140	46,250	1,890
Charges for Current Services	223,296	228,563	(5,267)
Other Revenue	37,186	55,976	(18,790)
Total Revenues	2,570,781	2,726,440	(155,659)
Expenditures:			
Current:			
General	144,275	205,151	60,876
Public Protection	741,156	811,502	70,346
Public Ways and Facilities	111,767	166,448	54,681
Health and Sanitation	505,363	595,344	89,981
Public Assistance	754,645	896,038	141,393
Education	22,466	25,484	3,018
Recreational and Cultural	16,142	21,158	5,016
Capital Outlay	39,016	175,111	136,095
Debt Service	64,535	64,601	66
Total Expenditures	2,399,365	2,960,837	561,472
Excess of Revenues Over (Under) Expenditures	171,416	(234,397)	405,813
Other Financing Sources (Uses):			
Sale of Fixed Assets	2,858	9,809	(6,951)
Operating Transfers In	502,956	562,608	(59,652)
Operating Transfers (Out)	(624,244)	(647,129)	22,885
Long Term Debt Proceeds	3,584	3,584	
Encumbrances, Beginning of Year	115,980	115,980	
Total Other Financing Sources (Uses)	1,134	44,852	(43,718)
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	172,550	(189,545)	362,095
Fund Balances - Beginning of Year	444,697	444,697	
Equity Conveyed to Other Entities			
Residual Equity Transfers (Out)	(7,141)	(7,141)	
Increase (Decrease) in:			
Reserve for Inventory of Materials and Supplies	447		447
Fund Balances - End of Year	\$ 610,553	248,011	362,542

See Notes to General Purpose Financial Statements

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS**ALL PROPRIETARY FUND TYPES****Year Ended June 30, 2001****With Comparative Figures for Year Ended June 30, 2000****(In Thousands)**

	PROPRIETARY FUND TYPES		STATEMENT 1D TOTALS (MEMORANDUM ONLY)	
	ENTERPRISE	INTERNAL SERVICE	2001	2000
Operating Revenues:				
Charges for Services	\$ 33,248	264,272	297,520	242,197
Operating Expenses:				
Salaries	3,802	21,296	25,098	25,561
Claims and Judgments		51,593	51,593	22,398
Cost of Materials		43,223	43,223	45,119
Repairs and Maintenance	1,221	18,477	19,698	14,401
Fuel		4,801	4,801	4,062
Equipment Rental	576	395	971	1,544
Sewage Processing	9,897		9,897	10,975
Contracted Services	13,910	95,114	109,024	65,705
Depreciation	2,929	7,506	10,435	9,896
Utilities	293	29,340	29,633	15,146
Other	3,425	10,628	14,053	14,687
Total Operating Expenses	36,053	282,373	318,426	229,488
Operating Income (Loss)	(2,805)	(18,101)	(20,906)	12,709
Nonoperating Revenues:				
Interest	4,568	4,132	8,700	5,946
Taxes	30		30	26
Grants	1,180		1,180	722
Gain on Disposal of Equipment	6	97	103	58
Other	30	18	48	83
Total Nonoperating Revenues	5,814	4,247	10,061	6,835
Nonoperating Expenses:				
Interest on Long-Term Debt	18	374	392	575
Loss on Disposal of Equipment	323	45	368	2,286
Other	1	14	15	
Total Nonoperating Expenses	342	433	775	2,861
Nonoperating Income (Loss)	5,472	3,814	9,286	3,974
Net Income (Loss) Before Contributions and Transfers	2,667	(14,287)	(11,620)	16,683
Capital Contributions	(311)	26,207	25,896	
Operating Transfers In	756	4,977	5,733	10,527
Operating Transfers (Out)	(583)	(5,853)	(6,436)	(2,597)
Net Income (Loss)	2,529	11,044	13,573	24,613
Depreciation on Grant Funded Fixed Assets	586		586	446
Increase (Decrease) in Retained Earnings	3,115	11,044	14,159	25,059
Retained Earnings:				
Beginning Balance	95,475	17,376	112,851	81,891
Retained Earnings Ending Balance	\$ 98,590	28,420	127,010	106,950

See Notes to General Purpose Financial Statements

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
Year Ended June 30, 2001
With Comparative Figures for June 30, 2000
(In Thousands)

	PROPRIETARY FUND TYPES		STATEMENT 1E TOTALS (MEMORANDUM ONLY)	
	ENTERPRISE	INTERNAL SERVICE	2001	2000
Cash Flows from Operating Activities:				
Operating Income (Loss)	\$ (2,805)	(18,101)	(20,906)	12,709
Adjustments to Reconcile Operating Income(Loss) to Net Cash Provided by Operating Activities:				
Depreciation	2,929	7,506	10,435	9,896
Decrease (Increase) in Accounts Receivable and Notes Receivable, Net	667	(1,381)	(714)	16
Decrease (Increase) in Prepaid Expense				
Decrease (Increase) in Due from Other Funds	131	(10,120)	(9,989)	(6,535)
Decrease (Increase) in Inventory of Materials and Supplies, Net		352	352	(135)
Increase (Decrease) in Accounts Payable	147	(306)	(159)	6,363
Increase (Decrease) in Accrued Payroll	(3)	35	32	20
Increase (Decrease) in Due to Other Funds	(1,656)	41,600	39,944	8,243
Increase (Decrease) in Due to Other Governments	1,283		1,283	(1,339)
Increase (Decrease) in Long-Term Debt Payable	(37)	24,879	24,842	(4,044)
Increase (Decrease) in Deferred Revenue	14	(1,500)	(1,486)	1,145
Other Revenue	61		61	109
Net Cash Provided (Used) by Operating Activities	731	42,964	43,695	26,448
Cash Flows from Non-Capital Financing Activities:				
Advances Made on Long-Term Loans		(74)	(74)	183
Grants	1,491		1,491	(1,209)
Transfers from (to) Other Funds	518	(876)	(358)	7,930
Residual Equity Conveyed to Other Entities		(3)	(3)	
Loans from (to) Other Funds				10,964
Net Cash Provided (Used) by Non-Capital Financing Activities	2,009	(953)	1,056	17,868
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Fixed Assets	(1,008)	(25,565)	(26,573)	(20,546)
Capital Contributions		26,007	26,007	
Proceeds from Sale of Equipment	6	683	689	680
Grants	387		387	1,934
Principal Paid on Long-Term Debt	(176)	(5,211)	(5,387)	(3,800)
Interest Paid on Long-Term Debt	(20)	(427)	(447)	(542)
Transfers from (to) Other Funds	(345)		(345)	
Residual Equity Transfers In				17,590
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,156)	(4,513)	(5,669)	(4,684)
Cash Flows from Investing Activities:				
Interest	4,557	4,170	8,727	5,368
Net Increase (Decrease) in Cash and Cash Equivalents	6,141	41,668	47,809	45,000
Cash and Cash Equivalents-Beginning of Year	61,530	106,644	168,174	123,174
Cash and Cash Equivalents-End of Year	\$ 67,671	148,312	215,983	168,174
Noncash Investing, Capital Financing Activities:				
Acquisition of Fixed Assets	\$ 108		108	749
Transfer Fixed Assets from(to) General Fixed Assets/Other Funds		204	204	5,573
Fixed Asset acquisition through Capital Lease		-	-	2,418
Fixed Asset write-off	(291)		(291)	(1,856)
Assumption of Capital Lease From General Long-Term Debt		-	-	365
Accrued Interest	980	1,144	2,124	1,367
Total Noncash Investing Capital Financing Activities	\$ 797	1,348	2,145	8,616

See Notes to General Purpose Financial Statements

PENSION TRUST FUND
STATEMENT OF CHANGES IN PLAN NET ASSETS
Year Ended June 30, 2001
With Comparative Figures for Year Ended June 30, 2000
(In Thousands)

	STATEMENT 1F	
	TOTALS	
	2001	2000
ADDITIONS:		
Contributions:		
Employer	\$ 41,123	38,167
Plan Members	10,789	8,359
Total Contributions	51,912	46,526
Investment Income:		
Net Appreciation (Depreciation) in Fair Market Value of Investments	(506,362)	420,965
Interest Income	112,795	105,053
Other Income	48,772	38,366
Total Investment Income	(344,795)	564,384
Total Additions	(292,883)	610,910
DEDUCTIONS:		
Benefits	154,828	142,565
Refunds of Contributions	1,645	976
Administrative Expense	6,383	5,313
Total Deductions	162,856	148,859
Net Increase (Decrease)	(455,739)	462,051
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	4,272,606	3,810,555
End of Year	\$ 3,816,867	4,272,606

See Notes to General Purpose Financial Statements

INVESTMENT TRUST FUND
STATEMENT OF CHANGES IN NET ASSETS
Year Ended June 30, 2001
With Comparative Figures for Year Ended June 30, 2000
(In Thousands)

STATEMENT 1G
TOTALS

	2001	2000
ADDITIONS:		
Contributions on Pooled Investments	\$ 12,872,164	10,339,734
Interest and Investment Income	89,979	62,208
Total Additions	12,962,143	10,401,942
DEDUCTIONS:		
Distribution from Pooled Investments	12,720,822	10,154,935
Net Increase (Decrease)	241,321	247,007
Net Assets Held in Trust for Pool Participants:		
Beginning of Year	1,219,739	1,071,074
End of Year	\$ 1,461,060	1,318,081

NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County of San Diego (the "County") conform to generally accepted accounting principles (GAAP) applicable to governmental units. The following is a summary of the more significant of such policies.

A. THE FINANCIAL REPORTING ENTITY

The County of San Diego is a political subdivision of the State of California (the "State") charged with general governmental powers and governed by an elected five-member Board of Supervisors (the "Board"). As required by generally accepted accounting principles, these financial statements present the County of San Diego (the primary government) and its component units. The component units discussed in Note 1B are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

B. INDIVIDUAL COMPONENT UNIT DISCLOSURES

Blended component units are listed below. The first seven component units are legally separate entities which are governed by the San Diego County Board of Supervisors. They are reported as if they were part of the primary government, because they benefit the County exclusively. The San Diego County Capital Asset Leasing Corporation (SANCAL) is a non-profit corporation governed by a five-member Board of Directors which is appointed by the County Board of Supervisors. SANCAL is reported as if it was part of the primary government, because its sole purpose is to finance the acquisition of County buildings and equipment. The San Diego County Employees Retirement Association (SDCERA) is governed by a nine-person Board of Directors of which four members are appointed by the County Board of Supervisors. SDCERA is a legally separate entity reported as if it were part of the primary government, because it exclusively benefits the County by providing pensions for retired County employees. The San Diego County Children and Families Commission (SDCCFC) is governed by a five-member Board of Commissioners. All five Commissioners are appointed by the County Board of Supervisors. SDCCFC is reported as if it was part of the primary government, because its sole purpose is to finance the cost of ensuring that parents have high quality information and support so that their young children are physically, emotionally and developmentally ready to learn. Separate financial statements for the individual component units described above may be obtained from the County Chief Financial Officer/Auditor and Controller.

The first five entities listed below are included as special revenue funds, the sanitation districts as enterprise funds, and the Redevelopment Agency as a capital project fund and debt service fund. SANCAL is included as a special revenue fund, capital project fund and debt service fund. SDCERA is included as a pension trust fund. SDCCFC is included as a special revenue fund.

County Service Districts
Flood Control District
Lighting Maintenance District
Air Pollution Control District

County of San Diego Housing Authority
Sanitation Districts
San Diego County Redevelopment Agency
San Diego County Capital Asset Leasing Corporation (SANCAL)
San Diego County Employees' Retirement Association (SDCERA)
San Diego County Children and Families Commission (SDCCFC)

C. BASIS OF PRESENTATION

The financial transactions of the County are recorded in individual funds and account groups. The various funds and account groups are reported by type in the financial statements. Amounts in the "Totals-Memorandum Only" columns in the financial statements represent a summation of the combined financial statement line-items of the fund types and account groups and are presented only for analytical purposes. The summation includes fund types and account groups that use different bases of accounting, both restricted and unrestricted amounts, and the caption "amount to be provided," which is not an asset in the usual sense. Consequently, amounts shown in the "Totals-Memorandum Only" columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures/expenses of the County.

The County implemented Governmental Accounting Standards Board (GASB) Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" for fiscal year 2000/01. This statement establishes new standards concerning the timing for recognizing nonexchange transactions as revenues and deferred revenues. The County, in accordance with the statement, determined that it was not practical to restate the detailed transactions for fiscal year 1999/00 and, instead, restated the beginning fund balance/net asset numbers of certain funds for fiscal year 2000/01. It may therefore be misleading to make meaningful comparisons between the two fiscal years. The numbers for fiscal year 1999/00 are presented for informational purposes. See footnote 4H for additional details.

The County uses the following fund categories, fund types, and account groups:

Governmental Fund Types

General Fund - To account for all financial resources except those required to be accounted for in another fund. The general fund is the County's operating fund.

Special Revenue Funds - To account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Included in these funds are the general funds of various component entities as described in Note 1B.

Debt Service Funds - To account for the accumulation of resources for the payment of principal and interest on general long-term debt.

Capital Project Funds - To account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary fund types).

Proprietary Fund Types

Enterprise Funds - To account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds - To account for the financing of goods or services provided by one department to other departments of the County, or to other governments, on a cost-reimbursement basis.

Fiduciary Fund Types

Trust and Agency Funds - To account for assets held by the County as a trustee or as an agent for individuals, private organizations, other governments and/or other funds. These include the pension trust fund (San Diego County Employees' Retirement Association), investment trust fund and agency fund.

Account Groups

General Fixed Assets Account Group - To account for all fixed assets of the County, except those accounted for in the proprietary-fund types.

General Long-Term Debt Account Group - To account for all long-term obligations of the County, except those accounted for in the proprietary fund types.

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Agency funds are custodial in nature and do not involve measurement of results of operations.

All proprietary funds, the pension trust fund and the investment trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity for the proprietary funds (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Financial Accounting Standards Board Statements issued after November 30, 1989, are not applied in reporting proprietary fund operations.

Governmental and Agency fund types are accounted for on the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual, (i.e., both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The County

considers this to be one year. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Revenues that are accrued include property taxes, sales tax, interest, and state and federal grants and subventions.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include: (1) principal and interest on long-term debt which is recognized when due; (2) prepaid expenses which are reported as current period expenditures, rather than allocated; and (3) accumulated unpaid vacation, sick leave, and other employee benefits which are reported in the period due and payable rather than in the period earned by employees.

Proprietary fund types, the pension trust fund and the investment trust fund are accounted for on the accrual basis of accounting. Their revenues are recognized in the period earned and expenses are recognized in the period incurred. There are no unbilled utility service receivables for the proprietary fund types.

E. PROPERTY TAXES

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1 lien date. However, upon a change in ownership of property or completion of new construction, State law requires an accelerated recognition and taxation of changes in real property assessed valuation. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing locally assessed and State assessed property secured by a lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are payable in two installments, due November 1 and February 1. If unpaid, such taxes become delinquent after 5:00 p.m. on December 10 and April 10, respectively, and a ten percent penalty attaches. Property on the secured roll with unpaid delinquent taxes is declared tax-defaulted after 5:00 p.m. on June 30th. Such property may thereafter be redeemed by payment of the delinquent taxes, the ten percent delinquency penalty, a ten dollar cost, a fifteen dollar per parcel redemption fee (from which the State receives five dollars), and redemption penalty of one and one-half percent per month starting July 1 and continuing until the end of redemption collectively, the "Redemption Amount"). If taxes remain unpaid after five years on the default roll, the property becomes subject to tax sale by the County Treasurer-Tax Collector.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A ten percent penalty attaches to delinquent taxes on property on the unsecured roll and an additional penalty of one and one-half percent per month begins to accrue on November 1.

F. ASSETS, LIABILITIES, AND FUND EQUITY

Cash and Investments

Investments in County funds are stated at fair value. Securities which are traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Short-term investments in the Pension Trust Fund are reported at cost, which approximates fair value. The fair value of Pension Trust Fund real estate

investments is based on independent appraisals. Investments of the Pension Trust Fund that do not have an established market are reported at estimated fair value.

For purposes of reporting cash flows, all amounts reported as "Equity in Pooled Cash and Investments," "Collections in Transit," and "Imprest Cash" are considered cash equivalents. Pooled cash and investment carrying amounts represent monies deposited in the County Treasurer's cash management pool and are similar in nature to demand deposits, (i.e., funds may be deposited and withdrawn at any time without prior notice or penalty). Allocations of assets and liabilities to individual funds related to reverse repurchase agreements are not considered cash equivalents for purposes of cash flow reporting.

Inventories

Inventories, which consist of expendable supplies, are stated at average cost. They are accounted for as expenditures at the time of purchase and reported in the balance sheet of the General Fund and the Special Revenue Funds as an asset with an offsetting reserve. Inventory held by the Road Fund, a special revenue fund, and the proprietary fund types is carried at average cost and is expended when consumed.

Fixed Assets

General fixed assets are recorded as expenditures in the governmental fund types at time of purchase. These assets are capitalized at cost in the General Fixed Assets Account Group (GFAAG). The County has elected not to capitalize interest costs during the construction phase for assets capitalized in the GFAAG but does capitalize such interest, net of interest earned on invested proceeds over the same period, for assets capitalized in proprietary funds. In the case of acquisitions through gifts or contributions, such assets are recorded at fair market value at the time received. No depreciation has been provided on general fixed assets. Fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, and drainage systems have not been capitalized. Such assets normally are immovable and of value only to the County; therefore, the purposes of stewardship and cumulative accountability for capital expenditures are satisfied without recording these assets. Proprietary fund type fixed assets are reported in those funds at cost or estimated fair market value at time of donation.

Depreciation is charged to operations of proprietary funds over the fixed assets' estimated useful lives using the straight-line method for structures and improvements, and the hours/miles-of-service method for equipment. The estimated useful lives are as follows:

Structures and Improvements	5-50 years
Equipment	4-20 years

Long-Term Liabilities

Long-term liabilities expected to be financed with resources from governmental fund types are accounted for in the General Long-Term Debt Account Group. Long-term liabilities of all proprietary fund types are accounted for in the respective funds.

Amounts recorded as accumulated leave benefits include an amount representing salary-related payments such as the employer's share of social security and Medicare

taxes associated with payments made for such compensated absences. Accumulated leave benefits including vacation, sick leave, and compensatory time worked in the amount of approximately \$68.8 million for the governmental fund types as of June 30, 2001, is recorded in the General Long-Term Debt Account Group. These amounts would not be expected to be liquidated from expendable available financial resources but would be expected to be liquidated in future years as employees elect to use these benefits as prescribed by Civil Service rules and regulations.

Reservation/Designation of Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Comparative Data/Totals-Memorandum Only

Comparative data for the prior year has been presented in certain of the accompanying financial statements in order to provide an understanding of changes in the County's financial position and operations. Also, certain of the prior year amounts have been reclassified to conform with the current year financial statement presentations. See footnote 4H for additional details.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

General Budget Policies

An operating budget is adopted each fiscal year for the governmental funds. Annual budgets are not required to be adopted for SANCAL, a non-profit corporation. Accordingly, Special Revenue, Debt Service, and Capital Projects Funds for this entity are not included in the accompanying Combined Statement of Revenues, Expenditures and Changes in Fund Balances - (Budget and Actual) NonGAAP Budgetary Basis. Unencumbered appropriations for the governmental funds lapse at fiscal year-end. Encumbered appropriations are carried forward to the subsequent fiscal year. Budgets for the governmental funds are adopted on a basis of accounting which is different from generally accepted accounting principles.

The major areas of differences are as follows:

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) are reported as budgeted expenditures in the year the commitment to purchase is incurred. For GAAP purposes, encumbrances outstanding at fiscal year-end are reported as reservations of fund balances and do not constitute expenditures and liabilities, because the appropriations for these commitments will be carried forward and the commitments honored in the subsequent fiscal year.

Long-term capital lease obligations are not budgeted as an expenditure and source of funds in the year the asset is acquired. Under a GAAP basis, such obligations are included as an expenditure and source of funds in the year the asset is acquired.

Loans and deposits to other agencies, if any, and their subsequent repayments are budgeted as expenditures and revenues, respectively. Under a GAAP basis, these items are not recognized as expenditures and revenues.

On a budgetary basis, unrealized gains and losses on the fair value of investments are not recognized. For GAAP purposes, such gains or losses are recognized. Expenditures may not legally exceed budgeted appropriations at the expenditure object level within each department. Departmental intrafund expenditure transfers do not have the budgetary status of legal appropriations. Therefore, variances between estimated transfers and actual transfers are not displayed in the general purpose financial statements, but are displayed as a general fund schedule within the Comprehensive Annual Financial Report. All amendments to the adopted budget require Board approval and, as such, reported budget figures are as originally adopted or subsequently amended by the Board. Supplemental appropriations during the year ended June 30, 2001, amounted to \$257.6 million in the general fund.

B. BUDGETARY TO GAAP BASIS RECONCILIATION

The following schedule is a reconciliation of the budgetary and GAAP fund balances (In Thousands):

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds
Fund Balance-Budgetary Basis	\$373,908	233,669	1,494	1,482
Encumbrances Outstanding at Year-End	99,848	67,741		160
Fair Value Change in Investments	2,086	2,955	4	37
Restatement of 2000 fund balances	142,442	138,364		(5,901)
Fund Balances-Non Budgeted Funds		1,730	37,002	26,757
Fund Balances - GAAP Basis	\$618,284	444,459	38,500	22,535

C. FUND DEFICITS

The following funds have an accumulated deficit at June 30, 2001 (In Thousands):

<u>Capital Projects Funds</u>	
San Diego County Redevelopment Agency (SDCRA)	\$ 8,152
<u>Enterprise Funds</u>	
Transit	\$ 425
<u>Internal Service Funds</u>	
Risk financing	\$ 25,618

The deficit within the SDCRA fund is due to the use of loan proceeds in advance of the receipt of benefit fees or incremental tax revenues. This deficit will be reduced in future years upon the receipt of the incremental tax revenues. The deficit within the Transit fund is due to inadequate cost recovery from user fees and the recognition of fair value changes in the value of investments. This deficit will be reduced in future years as securities mature and user fees are adjusted to cover costs. The deficit in the Risk Financing fund is due to the prior years' recognition of liabilities based on actuarial studies. This deficit is expected to be reduced over a 10 year period beginning July 1,

1997, through increased rates to County departments and reduced claim experience through increased risk management.

3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. EQUITY IN POOLED CASH AND INVESTMENTS, CASH, INVESTMENTS, AND OBLIGATIONS UNDER REVERSE REPURCHASE AGREEMENTS

The County maintains a cash and investment pool that is available for use by all funds of the County as well as the funds of other agencies for which the County Treasury is the depository. The San Diego County Treasurer issues a separate annual financial report on the County Investment Pool. This report may be obtained by writing to the San Diego County Treasurer, Room 152, County Administration Center, 1600 Pacific Highway, San Diego, California, 92101 or by calling (619) 531-4743. Copies are also available on the internet at www.sdtreastax.com.

Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments." Interest earned on the pooled funds is accrued in a pooled interest apportionment agency fund and is allocated based on the average daily cash balances of the participating funds. State law requires that interest income related to certain funds be considered income of the general fund of the County. Such interest has been recorded as revenue in the general fund.

"Cash with Fiscal Agent," represents amounts on deposit with trustees for the Air Pollution District, SANCAL, Pension Trust Fund (SDCERA), Pension Obligation Bonds, Redevelopment Agency, Teeter Commercial Paper Notes, and for repayment of the General Fund Tax and Revenue Anticipation Notes.

"Investments," represents the Inactive Wastesite Management Fund investments, the Pension Trust Fund (SDCERA) investments and stocks and bonds held for other agencies.

Deposits: At year-end the carrying amount of the County's deposits was \$431,528,000 and the balance per various financial institutions was \$414,528,000. Of the balance in financial institutions, \$790,000 was covered by federal deposit insurance and \$413,738,000 was collateralized according to State statutes which require depositories having public funds on deposit to maintain a pool of securities with the agent of the depository having a market value of at least 10% in excess of the total amount of all public funds on deposit. Of this amount \$134,256,000 was held by the County or its agent in the County's name and \$279,482,000 was held by the depository's trust department or agent in the County's name.

Investments: State statutes authorize the County to invest in obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers acceptances, repurchase and reverse repurchase agreements, medium-term notes, and negotiable certificates of deposit issued by national and state licensed or chartered banks or federal or state savings and loan associations. Pension Trust Fund investments are authorized by the County Employees' Retirement Law of 1937. Statutes authorize "Prudent Expert" guidelines as to the form and types of investments which may be purchased. The County's investments are categorized below to give an indication of the level of risk assumed by the entity at year end (In Thousands). Category 1 includes investments that are insured or registered or for which the securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered

investments for which the securities are held by counterparty's trust department or agent in the County's name. There were no investments with a risk Category 2 at June 30, 2001. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the County's name.

(In Thousands)	Category		Fair Value
	1	3	
Investments - Categorized			
Bankers Acceptances	\$	29,996	29,996
Repurchase Agreements	230,000	5,192	235,192
Commercial Paper	729,194		729,194
U.S. Government Securities	1,663,838	147,996	1,811,834
Negotiable certificates of deposit	145,940		145,940
Corporate notes	88,101		88,101
Corporate bonds	612,608		612,608
Common and preferred stock	2,284,969		2,284,969
Investments held by the County for other agencies:			
U.S. Government Securities	109		109
Corporate bonds	36		36
Common Stock	2		2
Subtotal	5,754,797	183,184	5,937,981
Investments - Not Categorized			
Investments held by broker dealers under			
Securities loans:			
U.S. Government securities			13,776
Corporate bonds			66,815
Common and preferred stock			91,544
Mutual Funds			267,348
Real Estate Equity			396,335
TOTAL INVESTMENTS			\$ 6,773,799

Fair values and estimates of fair values are provided monthly by an independent pricing agency and such values are not supported by any guarantees on the part of the pool sponsor or the pricing agency. The County and certain school districts are involuntary pool participants in the County Treasurer's investment pool and represent 92.7 percent of the total pooled cash and investments on hand at June 30, 2001.

Reverse Repurchase Agreements: State statutes permit the County to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The County had no reverse repurchase agreements outstanding at June 30, 2001.

Securities Lending Transactions: Under the provisions of State statutes, the County Treasurer lends U.S. government obligations and SDCERA lends U.S. government obligations, domestic and international bonds and equities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The County's custodial bank manages the securities lending programs for the County Treasurer and receives cash and securities as collateral pledged at 102 percent of the market value of securities lent. Fiscal agents for SDCERA manage the securities lending programs and receive cash securities pledged at 102 percent of fair value for domestic securities lent and 105 percent of the fair value of international securities lent.

Additional collateral has to be provided the next business day if its value falls to 100 percent or less of the market value of the securities lent. The collateral securities can not be pledged or sold by the County Treasurer or SDCERA unless the borrower defaults. No more than 20 percent of the Treasurer's pooled investment portfolio may be lent at one time. There is no restriction on the amount of SDCERA securities that may be lent at one time. Securities on loan at year-end are presented as unclassified in the preceding schedule of custodial credit risk and represent transactions of the SDCERA pension trust fund. At year-end, the pension trust fund has no credit risk exposure to borrowers because the amounts SDCERA owes the borrowers exceeds the amounts the borrowers owe SDCERA. The term to maturity of securities loans is generally matched with the term to maturity of the cash collateral. Such matching existed at fiscal year end.

B. RESTRICTED ASSETS-INVESTMENTS

Certain investments have been restricted by operation of law to fund post closure landfill costs over a 30-year period. These investments are recorded in the Inactive Wastesite Special Revenue Fund.

C. GENERAL FIXED ASSETS

The following is a summary of investments in general fixed assets by sources and a summary of changes in general fixed assets as of and for the year ended June 30, 2001.

**Sources of Investment in General Fund Assets
By Fund Class, June 30, 2001
(In Thousands)**

General Fund:		
General Fund Revenues		\$1,192,458
Federal and State Grants		1,658
Special Revenue Funds:		
Special Revenue Fund Revenues		73,134
Special Revenue State & Fund Revenues		65
Capital Projects Funds:		
Lease Revenue Bonds		174
Certificates of Participation		273
Total		\$1,267,762

**Summary of Changes in General Fixed Assets by Class
For the Year Ended June 30, 2001
(In Thousands)**

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 217,073	27,215	22,710	221,578
Structures & Improvements	532,719	270,124	97	802,746
Equipment	62,544	11,388	4,272	69,660
Construction in Progress	424,372	27,214	277,808	173,778
Total	\$1,236,708	335,941	304,887	1,267,762

D. PROPRIETARY FUND TYPE FIXED ASSETS

Following is a summary of Proprietary Fund Type Fixed Assets by class as of June 30, 2001 (In Thousands):

	Enterprise	Internal Service
Land	\$ 7,491	
Structures & Improvements	90,625	3,479
Equipment	11,650	82,539
Construction in Progress	3,929	29,854
Total	113,695	115,872
Less Accumulated Depreciation	45,583	40,222
Net	\$ 68,112	75,650

E. LEASE COMMITMENTS

The County has commitments under long-term property operating lease agreements for facilities used for operations. These leases do not meet the criteria for capitalization under FASB Statement 13. The County is the lessee under the terms of several non-cancelable operating leases for real property used to house certain County facilities. The combined rental cost for which the County is obligated under these leases is as follows (In Thousands):

Fiscal Year	Minimum Payments
2001/02	\$ 7,486
2002/03	6,842
2003/04	5,663
2004/05	5,379
2005/06	4,237
Thereafter	17,739
Total	\$47,346

Total rental expense for all real property operating leases for the year ended June 30, 2001, was approximately \$19.9 million.

In addition to real property leases, the County has also entered into long-term operating leases for personal property, a large portion of which represents data processing and duplicating equipment. Many of these leases are subject to annual adjustment based upon negotiations. Management expects that in the normal course of business, leases that expire be renewed or replaced by other leases. Total rental expense for these operating leases for the year ended June 30, 2001, was approximately \$15.7 million.

Certain buildings and equipment are being leased under capital leases as defined in FASB Statement 13. The present value of the minimum lease obligation has been capitalized in the General Fixed Asset Account Group and is reflected as a liability in the General Long-Term Debt Account Group. The County assumes responsibility for all

maintenance, repair, and structural modifications under the terms of the lease agreements.

Capital Lease Property Class	June 30, 2001 (In Thousands)
Structures and Improvements	\$45,544
Equipment	30,981
Total	<u>\$76,525</u>

Future minimum lease payments under capital leases consisted of the following at June 30, 2001 (In Thousands):

Fiscal Year	Minimum Lease Payment
2001/02	\$ 9,504
2002/03	9,412
2003/04	8,909
2004/05	8,887
2005/06	8,772
Thereafter	<u>70,058</u>
Total Minimum Lease Payments	115,542
Less: Amount Representing Interest	<u>(39,017)</u>
Net Lease Payments	<u>\$ 76,525</u>

F. GENERAL LONG-TERM DEBT

General Long-Term Debt outstanding at June 30, 2001, consists of certificates of participation, capital lease obligations (See Note 3E), pension obligation bonds, contracts/loans payable, revenue bonds, arbitrage rebate, accumulated unpaid employee leave benefits (See Note 1F) and landfill closure costs as follows (In Thousands):

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding
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San Diego County Capital Asset Leasing Corporation (SANCAL):

1993 Certificates of Participation issued March, 1993	3.00-5.75%	2013	\$7,640	\$5,735
1993 Certificates of Participation issued March, 1993	3.25-5.10%	2007	26,085	14,425
1993 Certificates of Participation issued May, 1993	2.50-5.625%	2012	203,400	125,095
1996 Certificates of Participation issued May, 1996	4.30-5.50%	2018	52,230	45,315
1996 Certificates of Participation issued December, 1996	4.00-6.00%	2019	37,690	35,525
1997 Certificates of Participation issued June, 1997	4.00-4.80%	2004	28,035	13,205
1997 Certificates of Participation issued July, 1997	4.00-5.00%	2025	80,675	75,620
1998 Certificates of Participation issued January, 1999	4.00-4.94%	2022	73,115	65,655
1999 Certificates of Participation issued September, 1999	3.60-4.75%	2009	15,010	13,770
2000 Certificates of Participation issued May, 2000	4.50-5.125%	2010	51,620	47,730
2000 Certificates of Participation issued May, 2000	4.50%	2020	19,000	5,975
2001 Certificates of Participation issued June, 2001	4.00%	2008	18,400	18,400
Total Certificates of Participation			612,900	466,450

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding
San Diego Regional Building Authority Lease beginning October, 1991	4.60-6.363%	2019	\$ 46,965	\$ 39,035
Third Party Financing Leases:				
Motorola Corporation Lease beginning December, 1995	5.65%	2011	39,772	29,830
Others: Various beginning dates from August, 1997 to the present	4.24-8.00%	2002-2008	11,337	7,660
Total Capitalized Leases			98,074	76,525
Calif. Integrated Waste Mgmt Board Loans beginning December, 1995	5.83-5.87%	2016	1,260	1,050
Dept. of Transportation Loans Beginning March, 2001	5.63%	2017	3,584	3,440
Taxable Pension Obligation Bonds Series A	4.7-6.60%	2007	430,430	317,345
Revenue Bonds Redevelopment Agency Series 1995	4.75-6.75%	2020	5,100	4,770
Total Other Long-Term Obligations			440,374	326,605
Arbitrage Rebate				64
Accumulated Unpaid Employee Leave Benefits				68,807
Landfill Closure				101,000
Total General Long-Term Debt				\$1,039,451

The certificates of participation (COP) of the SANCAL non-profit corporation listed above are secured by annual base rental lease payments payable by the County for use of the facilities constructed or equipment purchased from debt proceeds. There are also encumbrances on the facilities constructed with the proceeds of the SANCAL COP and the San Diego Regional Building Authority Bonds. The capital leases between the County and SANCAL have been eliminated for financial reporting purposes and the related assets and

debt (e.g. certificates of participation of SANCAL) are reported as San Diego County's assets and debt, respectively.

Changes in General Long-Term Debt for the year ended June 30, 2001, are summarized as follows (In Thousands):

Obligation	Beginning Balance	Additions	Retirements	Ending Balance
Certificates of Participation	\$ 515,980	18,400	67,930	466,450
Capital Lease Obligations	81,834		5,309	76,525
Contracts/Loans Payable	1,120	3,584	214	4,490
Pension Obligation Bonds	347,305		29,960	317,345
Redevelopment Agency	4,870		100	4,770
Arbitrage Rebate	16	48		64
Accumulated Unpaid Employee Leave Benefits	65,479	3,328		68,807
Inactive Landfill Closure	101,000			101,000
Total	\$ 1,117,604	25,360	103,513	1,039,451

The following is a schedule of debt service requirements to maturity, including interest, for General Long-Term Debt outstanding at June 30, 2001 (In Thousands). Accumulated unpaid employee leave benefits and Landfill Closure are excluded since they are not estimable due to timing of payments.

Year Ending June 30	Certificates of Participation	Capital Leases	Other Long-Term Obligations	Pension Obligation Bonds	Redevelopment Agency	Total
2002	\$ 57,023	9,504	469	53,753	420	121,169
2003	59,659	9,412	456	56,448	424	126,399
2004	57,920	8,909	456	59,270	422	126,977
2005	54,281	8,888	455	62,237	424	126,285
2006	54,246	8,772	454	65,349	426	129,247
2007-2011	192,837	38,618	2,230	94,686	2,150	330,521
2012-2016	87,428	17,437	2,097		2,178	109,140
2017-2021	59,793	14,002	181		2,215	76,191
2022-2026	30,602					30,602
Total	\$ 653,789	115,542	6,798	391,743	8,659	1,176,531

Prior Year Defeasance of Debt

In prior years, the County defeased certain lease revenue bonds/certificates of participation (COPs) by placing the proceeds of the original issue plus additional County contributions in an irrevocable trust to provide for all future debt service payments on the old obligations. Accordingly, the trust account assets and the liability for the defeased obligations are not included in the County's financial statements. At June 30, 2001, \$87.6 million of bonds/COPs outstanding are considered defeased.

Advance Refunding of Long-Term Debt

San Diego County Capital Asset Leasing Corporation (SANCAL)

On June 28, 2001 SANCAL issued \$18.4 million in Certificates of Participation (COP) with a variable interest rate. This variable-rate debt does not have minimum and maximum rate limits. At the pricing date, the assumed variable interest rate was 4%. The net proceeds will be used to current refund \$38.05 million of COP issued by SANCAL in 1991 for the Interim Justice Facility Project. The COP issued by the Corporation were secured by a long-term capital lease between the County and the Corporation. The net proceeds of \$17.87 million (less underwriting fees of \$184,000 and other issuance costs of \$347,000) were used to purchase the par value of \$18.4 million in US Government securities and to fund certain reserves for the COP. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the payment of the outstanding securities. As a result, the SANCAL 1991 COP is considered defeased. The liability for those COP issued by SANCAL and long-term capital lease between the County and the Corporation have been removed from the general long-term debt account group.

While there are inherent risks in issuing COP with variable rates, SANCAL will monitor the fluctuations in interest rates and will evaluate the economic advantage of refunding the issuance with a fixed rate or paying off the debt. Using the assumed variable rate of 4% at the time of pricing, SANCAL current refunded SANCAL's 1991 COP to achieve short-term budgetary savings to the County and to reduce the total debt service payments over the next 7 years by an estimated amount of \$512,000 and to obtain an economic gain (difference between the present values on the old and new debt) of an estimated amount of \$377,000.

Inactive Landfill Closure Costs

The County maintains 17 waste disposal sites that were closed prior to 1985. Consistent with State and Federal regulations pertaining to closed landfills, post-closure costs for these landfills, to include facilities maintenance and groundwater monitoring over a 30 year period, are estimated at \$101 million in current year costs. This amount has been recorded in the general long-term debt account group. Actual costs may be higher due to inflation, changes in technology or changes in regulations. The County has funded this liability from cash reserves realized in prior years.

G. PROPRIETARY FUND TYPES LONG-TERM DEBT

Proprietary fund types long-term debt consists of revenue bonds, loans payable, capital leases, contracts payable, and unpaid accumulated employee leave benefits. The revenue bonds are general obligations of the issuing district and as such, the district is empowered and obligated to levy ad valorem taxes upon all taxable property within the

district without limit as to rate or amount for the purpose of paying the principal and interest. The bonds are also payable from restricted sewer service revenues of the issuing districts. A schedule of proprietary fund types long-term debt is as follows (In Thousands):

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding 6/30/2001
Revenue Bonds:				
Alpine Sanitation 1970A	6.70-7.00%	2001	\$285	\$ 25
Loans:				
Julian Sanitation	5.3%	2003	61	5
Capital Leases:				
Mail/Print/Records ISF:				
Koch Financial	4.73%	2002	166	54
Pitney Bowes	4.33-4.62%	2003	304	107
Fleet ISF:				
Koch Financial	4.88-5.63%	2002	5,803	117
Pitney Bowes	4.22-4.87%	2004	11,101	6,201
GECPAC	5.35-7.05%	2001	387	7
Total			18,107	6,516
Contract Payable Spring Valley				195
Long-term Claims Payable - Risk Financing ISF				84,210
Unpaid Accumulated Employee Leave Benefits				2,231
Total Proprietary Fund Types Long-Term Debt				\$93,152

The following is a schedule of debt service requirements to maturity, including interest, for proprietary fund types revenue bonds, loans and capital leases outstanding at June 30, 2001. Accumulated unpaid employee leave benefits are excluded because they are not estimable due to timing of payments. Long term claims payable are also excluded since they are based on estimates which are uncertain as to the probable date of payment (In Thousands):

Year Ending June 30	Revenue Bonds	Loans	Capital Leases	Total
2002	\$26	4	3,269	3,299
2003		5	2,785	2,790
2004			844	844
Total	\$26	9	6,898	6,933

H. SPECIAL ASSESSMENT DEBT

The County Treasurer/Tax Collector acts as an agent for property owners and bondholders in collecting and forwarding special assessment monies. The County is not obligated for repayment of any special assessment bonds and all special assessment debt is solely the obligation of various separate governmental agencies. The amount of

special assessment debt outstanding for which the County is a fiduciary is \$18.7 million at June 30, 2001.

I. INTERFUND RECEIVABLE AND PAYABLE BALANCES

Individual Fund interfund balances at June 30, 2001 were (In Thousands):

	Due From Other Funds	Due To Other Funds
General Fund:	\$ 198,025	43,115
Special Revenue Funds:		
Road	3,068	1,603
Inactive Wastesites	657	273
Lighting District	34	21
Air Pollution	323	265
County Library	346	427
Asset Forfeiture Program	78	15
Inmate Welfare Program	228	361
HCD	406	4,807
Cable TV	23	13
Park Land Dedication	97	43
Children and Families Commission	1,358	82
County Service Districts	248	169
Flood Control District	286	67
Housing Authority	1,573	3,014
Realignment	6,328	45,042
Public Safety	272	29,204
Other Special Districts	56	585
Total Special Revenue Funds	15,381	85,991
Debt Service Funds:		
Pension Obligation Bonds	\$26	-
Nonprofit Corporation	47	-
Redevelopment Agency	21	307
Total Debt Service Funds	94	307
Capital Projects Funds:		
Capital Outlay	15,827	13,217
Edgemoor Development	4	1
Nonprofit Corporation	40	9,313
Redevelopment Agency	36	20
Total Capital Projects Funds	15,907	22,551
Enterprise Funds:		
Airport	746	296
Liquid Waste	332	142
Transit	39	64
Sanitation Districts	855	239
Total Enterprise Funds	1,972	741

I. INTERFUND RECEIVABLE AND PAYABLE BALANCES (Continued)

	Due From Other Funds	Due To Other Funds
Internal Service Funds:		
Road & Communication Equipment	650	262
Purchasing	2,436	749
Risk Financing	382	1,283
Fleet Services	1,695	1,039
Mail, Print and Records	339	708
Facilities Management	7,783	6,268
Information Technology	10,436	48,990
Other Miscellaneous	51	375
Total Internal Service Funds	23,772	59,674
Trust and Agency Funds:		
Pension Trust	2,460	835
Investment Trust	61,965	5,962
Agency	2,421	102,821
Total Trust and Agency Funds	66,846	109,618
Total Due To - Due From Other Funds	\$ 321,997	321,997
	Advances To Other Funds	Advances From Other Funds
General Fund:	\$689	
Special Revenue Funds:		
County Service Districts		371
Flood Control District	157	
Total Special Revenue Funds	157	371
Debt Service Funds:		
Nonprofit Corporation	478	
Redevelopment Agency		287
Total Debt Service Funds	478	287
Capital Projects Funds:		
Redevelopment Agency		10,331
Total Capital Projects Funds		10,331
Enterprise Funds:		
Airport	9,637	
Sanitation Districts	135	314
Total Enterprise Funds	9,772	314
Internal Service Funds:		
Special District Loans	207	
Total Internal Service Funds	207	

Total Advances To - Advances From Other Funds	\$11,303	11,303
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J. RESIDUAL EQUITY TRANSFERS

Residual equity transfers consisted of transfers from the General Fund to the Fleet Internal Service Fund (ISF) in the amount of \$7.1 million. Total residual equity transfers in do not equal total residual equity transfers out because the \$7.1 million is recorded as a capital contribution in the Fleet ISF.

K. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The County maintains three enterprise funds which provide airport, liquid waste, and transit services. Segment information for the year ended June 30, 2001, for those funds and six sanitation districts for which the Board of Supervisors has oversight responsibility was as follows (In Thousands):

	Airport	Liquid Waste	Transit	Sanitation Districts	Totals
Operating Revenue	\$5,424	3,772	11,843	12,209	33,248
Depreciation	745	16	586	1,582	2,929
Operating Income (Loss)	(1,032)	32	(765)	(1,040)	(2,805)
Tax Revenue				30	30
Grant Revenue	1,180				1,180
Other Nonoperating Revenue	327	216	197	3,864	4,604
Nonoperating Expenses	32			310	342
Nonoperating Income or (Loss)	1,475	216	197	3,584	5,472
Net Income or (Loss)	561	335	(1,003)	2,636	2,529
Capital Contributions			(435)	124	(311)
Plant, Property and Equipment:					
Additions	472	10	387	346	1,215
Deletions	33		668	290	991
Net Working Capital	15,062	1,610	11	58,754	75,437
Total Assets	36,573	1,906	7,450	102,124	148,053
Total Equity	35,914	1,514	4,323	101,295	143,046
Long-Term Liabilities	110	168		225	503

L. CONTRIBUTED CAPITAL

During fiscal year 2000/01 contributed capital neither increased nor decreased substantially in accordance with the Governmental Accounting Standards Board's Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", footnote 18. Instead, capital contribution changes are reflected in the Combining Statements of Revenues, Expenses and Changes in Retained Earnings.

Enterprise Funds

SOURCE	Airport	Liquid Waste	Transit	Sanitation Districts	Total
Accumulated Depreciation on Grant Funded Fixed Assets	\$		(6,036)		(6,036)
Contributed Capital, July 1	15,922	695	10,784	23,091	50,492
Contributed Capital, June 30	\$ 15,922	695	4,748	23,091	44,456

Internal Service Funds

	Buildings	Road & Comm. Equip.	Purch.	Spec. Dist. Loans	Fleet	Records	Signs	Tools	Other	Total
Governments' Contributions Total										
Additions (Reductions)	\$			3					(4)	(1)
Contributed Capital, July 1	9,541	1,189	904	34,599	583	186	10,453	4		57,459
Contributed Capital, June 30	\$9,541	1,189	907	34,599	583	186	10,453			57,458

4. OTHER NOTE DISCLOSURES

A. COMMITMENTS AND CONTINGENCIES

(1) Litigation

In addition to the accrued liability for litigation and Workers Compensation claims described in Note 4B, the County has a potential liability of \$19 million that could result if unfavorable final decisions were rendered in numerous lawsuits to which the County is a named defendant. Appropriations are budgeted annually for those portions of obligations coming due that fiscal year. Estimates of potential liabilities described above include estimates of claims incurred but not reported at June 30, 2001.

(2) Unrecorded Leave Benefits

County employees have unrecorded accumulated benefits of approximately \$109.5 million in sick leave. These benefits are not payable to employees upon termination and are normally liquidated in future years as employees elect to use their benefits as prescribed by Civil Service rules and regulations. Accumulated vacation, sick leave, and compensatory time-off for which employees are eligible for payment upon separation has been recorded as current or long-term liabilities in the appropriate funds or General Long-Term Debt Account Group as described in Note 1F.

(3) Tax and Revenue Anticipation Notes

At June 30, 2001 \$175 million of Tax and Revenue Anticipation Notes issued during fiscal year 2000/01 were still outstanding. Monies for complete redemption of these notes were fully segregated with an independent trustee at June 30, 2001, and subsequently used to redeem the notes on October 4, 2001. On July 3, 2001, the County issued \$150 million of Tax and Revenue Anticipation notes to finance fiscal year 2001/02 General Fund cash flow requirements. The notes are scheduled to mature on June 28, 2002.

(4) Teeter Obligation Commercial Paper Notes

From November 1995 through June 2001, the County issued \$82.7 million in taxable and \$210.3 million in tax-exempt commercial paper notes (CP) to provide ongoing financing for tax apportionments to taxing jurisdictions within the County in the amount of delinquent secured property taxes due these districts. The notes are secured by delinquent secured property tax collections. No CP can be issued for a period longer than 270 days. At June 30, 2001, the outstanding balances of CP were \$20.0 and \$43.9 million for taxable and tax-exempt notes, respectively.

(5) Third Party Debt

Mortgage Revenue Bonds

Multi-family Housing Revenue Bonds are issued to provide construction and permanent financing to developers of multi-family residential rental projects located in the County to be partially occupied by persons of low or moderate income. Between December 1985 and June 2001, the County issued \$49.7 million of Mortgage Revenue Bonds of which \$41.1 million were still outstanding as of June 30, 2001.

Certificates of Participation

Beginning in April 1998, \$112 million in Certificates of Participation have been issued to provide funding for construction of capital improvements and refunding of prior obligations for a hospital and medical center located within the County. In December 1998, the County entered into a lease agreement with the San Diego Natural History Museum to issue \$15 million of COPs to finance certain museum improvements. In September 1999, the County entered into a lease agreement with the Burnham Institute to issue \$51.5 million of COPs to finance the purchase of real property. In March 2000, the County entered into a lease agreement with the San Diego Museum of Art to issue \$6 million of COPs to finance certain museum improvements. In April 2000, the County entered into a lease with the Salk Institute to issue \$15 million of COPs to finance the

acquisition, construction and equipping of certain research facilities. In May 2001, the County entered into a lease agreement with the University of San Diego to issue \$36.9 million of COPs to finance certain capital improvements for the University. As of June 30, 2001, \$233.4 million of such COPs are still outstanding.

Industrial Development Revenue Bonds

Industrial Development Revenue Bonds have been issued to provide financial assistance for the acquisition, construction, and installation of facilities for industrial, commercial, or business purposes to mutually benefit the citizens of the County. The County issued \$3.5 million of Industrial Development Revenue Bonds in October 1987 and all of the outstanding bonds were redeemed on November 1, 2000. There are currently no county issued Industrial Development Revenue Bonds outstanding.

Reassessment District Improvement Bonds

Reassessment District Improvement Bonds were issued to provide for refunding an earlier issuance of Improvement Bonds for an assessment district. The district issued \$28.8 million of Improvement Bonds in July 1991 to finance the acquisition of certain infrastructure improvements specially benefiting properties within an assessment district. In July 1997, the district issued \$21.8 million of Reassessment Bonds to refund the original issuance, of which \$18.8 million were still outstanding as of June 30, 2001.

Mortgage Revenue Bonds, Certificates of Participation, Industrial Development Revenue Bonds and Reassessment District Improvement Bonds as described above, together with interest thereon, are limited obligations of the County payable solely from bond proceeds, revenues and other amounts derived solely from home mortgage and health institutions, developer loans secured by first deeds of trust, irrevocable letters of credit, irrevocable surety bonds and tax assessments. In the opinion of County officials, these bonds and certificates are not payable from any revenues or assets of the County, and neither the full faith and credit nor the taxing authority of the County, the State or any political subdivision thereof is obligated to the payment of the principal or interest on the bonds. Accordingly, no liability for these bonds have been recorded in the General Long-Term Debt Account Group.

(6) Federal Programs

The County participates in a number of federal financial assistance programs. Although these programs have been audited through June 30, 2000, in accordance with the provisions of the Single Audit Act of 1996, the resolution of previously identified questioned costs has not occurred. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

(7) SDCERA

SDCERA is party to financial instruments with off-balance sheet risk to generate earnings and stabilize excess earnings from active management of fixed income securities and common stocks. Managed futures contracts include, but are not limited to, contracts for delayed delivery of securities, commodities, or currencies

in which the seller agrees to make delivery at a specified future date of a specified instrument at a specified price or yield. Risks arise from the possible inability of counter-parties to meet the terms of their contract. The risks of loss from these off-balance sheet financial instruments include minimal credit risks, but include the possibility that future changes in market prices may make such financial instruments less valuable (market risk).

Not reflected in the pension trust fund financial statements are commitments to acquire real estate totaling \$94 million.

The County has negotiated certain retirement enhancements as part of contract settlements with employee bargaining units that could become effective in March 2002. Because the effective date is contingent upon the resolution of several outstanding issues, the March date is tentative at this time. Implementation is contingent upon the conclusion of labor negotiations with two remaining employee organizations, the resolution of pending retirement litigation, decisions regarding the method of funding the additional benefits, and finally, approval by the County's Board of Supervisors. If implemented, the enhancements include the elimination of Tier II for both general and safety members, the introduction of a "3% at age 50" formula for safety members and a new optional Tier A for active general members. Preliminary actuarial estimates indicate that the Plan's accrued liability would increase by approximately \$990 million, including additional reserve requirements for COLA and retiree health. The SDCERA has been working with its actuarial consultant to assess the financial impact of these enhancements, also taking into consideration the current investment market, to ensure that the Plan remains in sound financial condition in accordance with accepted actuarial principles.

(8) Deposits for Other Agencies

The Treasurer is a named paying agent for various bonds issued by other agencies, e.g., school districts, pursuant to the bond resolutions. The proceeds from these issues are deposited with financial institutions as guaranteed investment contracts in accordance with the provisions of the bond resolution and contractual relationships between the Treasurer and these financial institutions. The amounts deposited belong to the specific agency which issued the bonds and are not assets of the County reporting entity and are not held in the County's external investment pool. The County has no liability with respect to these issues.

B. RISK MANAGEMENT

The County operates a Risk Management Program, whereby it is self-insured for premises liability at medical facilities, medical malpractice, errors and omissions, false arrest, forgery, general liability, and the first \$1 million of workers' compensation. The County purchases insurance for property damage, certain casualty claims, public officials bond, employee dishonesty, faithful performance, volunteers, excess workers' compensation, airport comprehensive, and loss of money and securities based upon site locations. Earthquake insurance coverage decreased from \$100 million to \$75 million. Settlements in the areas covered have not exceeded insurance coverage for each of the past three fiscal years. During fiscal year 1994/95, the County established an Internal Service Fund (ISF) to report all of its uninsured risk management activities. Risk management liabilities are reported when it is probable that a loss has occurred and the

amount of that loss can be reasonably estimated. An actuarial evaluation was used to determine the workers' compensation portion of total risk liability at June 30, 2001. For the public liability portion of total risk liability, the actuarial evaluation from June 30, 2000 was used with an estimate for changes since that date. The actuarial estimate was based partially on the experience of similar governmental entities and included the effects of specific incremental claim adjustment expenses, salvage and subrogation if such factors could be estimated. This estimate may be modified in future years to reflect the historical accumulation of the County's actual claims experience. At June 30, 2001, the amount of these liabilities, including an estimate for claims incurred but not reported, was estimated at \$84.2 million, including \$12.0 million in public liability and \$72.2 million in workers' compensation. The workers' compensation liability increased by \$25 million over last year's figure. The \$25 million increase includes \$16 million that was due to an increase in the minimum required level, and \$9 million that was due to the County choosing the more conservative approach of recording the liability at an 80% confidence level. The County began allocating the cost of providing claims service to all its operating funds as a "premium" charge expressed as a percentage of payroll beginning fiscal year 1996/97. Changes in the balances of claim liabilities for fiscal year 1999/00 and 2000/01 were as follows (In Thousands):

Fiscal Year	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
1999/00	\$65,221	19,151	(24,849)	59,523
2000/01	59,523	51,593	(26,906)	84,210

Also, the County, in compliance with the Tax Reform Act of 1986 and subsequent U.S. Treasury Regulations, has performed arbitrage rebate calculations to determine probable amounts due to the Federal government. An estimate of probable arbitrage rebate in the amount of \$64,000 has been included in the General Long-Term Debt Account Group.

C. JOINT VENTURE

The County is a participant with 16 incorporated cities in a joint venture to operate an emergency services organization for the purpose of providing regional planning and mutual assistance in the event of an emergency or disaster in the region including accidents involving hazardous waste. The organization is governed by the Unified Disaster Council composed of one voting member from each represented jurisdiction. A contractual agreement requires that the cities provide one-half of the total required funding each year. The County, by agreement, also provides one-half of the required yearly funding. Any participant may terminate participation in the agreement by giving 120 days notice prior to the beginning of the next fiscal year. Total participant contributions for the 2000/01 fiscal year were \$399,904. The organization had a cumulative surplus of \$223,902 at June 30, 2001. Separate financial statements for the joint venture may be obtained from the County Chief Financial Officer/Auditor and Controller.

D. JOINTLY GOVERNED ORGANIZATIONS

The County Board of Supervisors jointly governs two service authorities, the Service Authority for Abandoned Vehicles and the Service Authority for Freeway Emergencies. These Authorities are governed by two seven-member boards, consisting of

representatives from the city councils of the incorporated cities within the County and two members of the County Board of Supervisors. The purpose of the authorities is to provide for the removal of abandoned vehicles on streets and highways and to provide for freeway emergency call boxes on major freeways within the County, respectively. Funding for the authorities is derived from vehicle license fee surcharges, which are collected by the State and deposited into the County Treasury. The County provides minimal administrative staff support for these authorities.

The County Board of Supervisors and the San Diego City Council jointly govern the San Diego Workforce Partnership (the "Partnership"). The Partnership's Board of Directors consists of two members of the County Board of Supervisors, two members from the San Diego City Council and one member of a charitable organization. The purpose of the Partnership is to provide employment training to area residents. Funding for such training is provided by State and Federal grants.

The County also jointly governs the San Dieguito River Valley Authority, the Serra Cooperative Library System, Southern California Regional Training and Development Center, and the Van Horn Regional Treatment Facility. The governing boards of these entities consist of representatives from the County and/or other regional governments and other counties. The County does not appoint a voting majority to the above boards. Services provided by these entities include park land acquisition, coordination of library services, regional governmental training, and treatment of emotionally disturbed youth.

E. SAN DIEGO COUNTY EMPLOYEES' RETIREMENT SYSTEM

(1) Plan Description

The SDCERA administers a single-employer defined benefit pension plan which provides retirement, disability, and death benefits for plan members and beneficiaries pursuant to the County Retirement Law of 1937 enacted and amended by the State legislature. The plan is integrated with the Federal Social Security System. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the SDCERA Board of Retirement. SDCERA issues a publicly available financial report that includes financial statements and required supplementary information for the pension plan. The financial report may be obtained by writing to the San Diego County Employees Retirement Association, 401 West A Street, Suite 1300, San Diego, California 92101 or by calling (619) 515-0130.

(2) Basis of Accounting and Fair Value of Investments (See Notes 1D and 1F, respectively).

(3) Funding Policy

State statutes require member contributions to be actuarially determined to provide a specific statutory level of benefit. Member contribution rates, as a percentage of salary, vary according to age at entry, benefit tier level, and certain negotiated contracts which provide for the County to pay a portion of the employees' contribution. Member contribution rates (weighted average) expressed as a percentage of salary are 4.76%-12.48% for general members and 6.51%-14.40% for safety members. The County is also required by State statutes to contribute at an actuarially determined rate; the 2000/01 rates, expressed as a

percentage of covered payroll, are - (3.82)% for general members and 2.96% for safety members.

(4) Annual Pension Cost

For the current fiscal year, the County's net annual pension cost was zero and was equal to the County's required and actual contribution. However, the Safety member component did reflect a small liability and the County elected to make contributions of approximately \$2 million toward that liability. The General member liability was a negative number. The required contribution rates, as adopted by the SDCERA Board, were determined as part of the June 30, 1998 and June 30, 1999 actuarial valuations based upon entry-age actuarial cost method. The actuarial assumptions included (a) an 8.25% investment rate-of-return, (b) projected salary increases of 4.5% per year, and (c) cost-of-living increases for retirees of 3.0% (Tier I Safety and General members) and 2.0% (Tier II Safety and General members). The annual pension cost is the same as the annual pension contribution. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. Any unfunded actuarially accrued liability would be funded as a level percentage of projected payroll over a closed five-year period.

(5) Schedule of Funding Progress (In Millions):

Required Supplementary Information Unaudited

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	General Payroll (c)	UAAL as a Percentage of General Payroll (b-a)/(c)
06/30/1998	\$2,834.5	2,677.5	0	105.9%	\$599.8	0%
06/30/1999	3,211.9	2,990.1	0	107.4%	642.8	0%
06/30/2000	3,568.7	3,248.8	0	109.8%	672.5	0%

The actuarial report for June 30, 2001 is not yet available.

(6) Three-Year Trend Information (In Thousands):

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/1998	\$24,320	100%	0
06/30/1999	0	100%	0
06/30/2000	14,341	0%	0

The actuarial report for June 30, 2001 is not yet available. The Board of Retirement elected to offset the County's APC for the fiscal year ending June 30,

2000 from the considerable surplus within the Pension Trust Fund. Therefore, no County monies were expended for the APC.

(7) Retiree Health Benefits:

Retiree health benefits may be available to eligible retirees to the extent that the Board of Retirement on an annual basis approves the payments of such benefits. The Board of Supervisors and the Board of Retirement adopted a funding mechanism under 401(h) of the Internal Revenue Service code, which calls for a portion of the County's contributions to be deposited to a separate account each year. The amount of the contributions placed in this account are then withdrawn from the investment earnings which exceed the assumed rate of return of the portfolio, and placed in the retirement fund to ensure the funding of the pension benefits are made whole and complete. The health benefits fund began its funding with \$19.9 million that can only be used to pay retirement health benefits.

Approximately 8,900 retirees or surviving spouses are eligible to receive these benefits. SDCERA recognizes the cost of providing those benefits by expending annual insurance premiums, which approximated \$10.8 million for fiscal year 2000/01. A reserve established by the SDCERA Board of Directors for the payment of postretirement health care benefits was approximately \$181.5 million at June 30, 2001, a \$45.8 million increase from the previous fiscal year.

(8) Equity and Bond Swaps and Futures Contracts:

SDCERA utilizes various financial instruments such as equity and bond interest rate swap agreements and stock and bond futures contracts in order to synthetically create exposure to the equity and bond markets. These financial instruments are intended to be equivalent to the asset they are designed to emulate and SDCERA management believes such investments offer significant advantages over the direct investment in securities including lower transaction fees and custody costs. The SDCERA governing board of directors has adopted a policy whereby specified amounts of cash and certain securities equal the exposures resulting from these agreements.

The use of swap agreements does expose the pension trust fund to the risk of dealing with financial counterparties and their ability to meet the terms of the contracts. Forward contracts for the purchase of certain commodities are reported at fair value in the financial statements. Obligations to purchase the commodities are not recognized until the commodities are delivered.

F. NEW SPECIAL REVENUE FUNDS

During the fiscal year, the County formed three new Special Revenue Funds. They are entitled Realignment, Children and Families Commission and Public Safety. All three funds were created by eliminating agency funds that formerly held receipts and periodically transferred them to and recognized revenue in the County general fund. The Realignment Fund accounts for revenues and expenditures related to providing health, mental health and public assistance programs to qualifying individuals. Financing is provided by a one-half cent statewide sales tax. The Children and Families Commission Fund accounts for revenues and expenditures related to ensuring that parents have high

quality information and support so that their young children are physically, emotionally and developmentally ready to learn. Financing is primarily from a statewide tax on tobacco products. The County Board of Supervisors appoints three of the five commissioners. The Public Safety Fund accounts for revenues and expenditures related to providing public safety services such as sheriffs, fire protection, district attorneys, and corrections. Financing is provided by a one-half cent statewide sales and use tax. The County deemed it impractical to restate the special revenue fund section in the CAFR for the prior period. Instead, the cumulative effect of creating these three new funds is being reported as a restatement of beginning fund balance in the three individual funds for the year ended June 30, 2001. The beginning fund balances for the Realignment, Children and Families Commission, and Public Safety Funds were \$25.0 million, \$62.1 million and \$27.5 million respectively.

G. PRIOR YEAR ADVANCE

Prior to the issuance of Revenue Bonds in 1995 by the San Diego County Redevelopment Agency, the County Airport Enterprise Fund funded the initial expenditures of the Agency's two airport projects. It has now been determined that the Redevelopment Agency is required to reimburse the Airport Enterprise Fund, which spent approximately \$5.9 million on the projects. The Redevelopment Agency -- Capital Project Fund and the Airport Enterprise Fund have both recognized this increase in their respective Advances From and To Other Funds. They have also adjusted their beginning fund balance and retained earnings figures respectively for the fiscal year ending June 30, 2001. The Agency will pay interest on advances, but is not responsible for payment until funds are available for this purpose. Funds were not available this fiscal year and are not expected to be available next year. Therefore, no provision for accrued interest has been made in this report. The Agency's independent auditor has concurred in this treatment.

H. NEW GOVERNMENTAL ACCOUNTING STANDARDS

In December 1998, the Governmental Accounting Standards Board (GASB) issued Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions". This statement establishes new standards to guide state and local governments' decisions about when to report the results of nonexchange transactions involving cash and other financial and capital resources. In a nonexchange transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return. The County has adopted the new standards for the current year.

In prior years, many nonexchange dollars were collected and maintained in agency funds until such time as they reimbursed expenditures incurred in the general fund and other funds of the County. Thus, revenues were not earned when received, but when expenditures were incurred. Under GASB Statement No. 33, the accounting method changed to require most nonexchange dollars to be recognized as revenues in the general fund or other appropriate fund when received. Time restrictions on revenue recognition required deferred revenues instead of actual revenues. Purpose restrictions did not affect revenue recognition, but did require a reservation of fund balance. The County analyzed hundreds of its trust and agency funds to determine the proper revenue recognition under the new standard. Many funds were found to hold assets for county purposes and for reporting purposes, were moved from the agency category to be recognized in other funds. The agency column now reports only assets held in an agent capacity for other governments, organizations and individuals. Any portion of agency fund assets belonging to other funds at year end are reported in those funds rather than in the agency fund.

The adoption of this statement has resulted in a restatement of several fund balances - beginning of year for the current year. The County determined that it was impractical to restate prior periods for an accounting change of this magnitude. Fund Balances - Beginning of Year for the 2000/01 fiscal year were restated (increased) in the General, Road and Flood Control District Funds by \$142,442, \$12,654 and \$11,077 respectively (In Thousands). The details of the adjustment are reflected below:

Restated	General	Road	Flood Control
Reserved for Other Purposes	\$ 118,028	12,696	11,111
Designated for Subsequent Years' Expenditures	20,783		
Undesignated	3,631	(42)	(34)
Total	\$ 142,442	12,654	11,077

Revenue and fund balance increases were recognized in the current year as a result of implementing the new standards as follows (In Thousands):

Reserved for Other Purposes	\$ 34,145	9,604	1,894
Designated for Subsequent Years' Expenditures	1,668		
Undesignated	522		
Total	\$ 36,335	9,604	1,894

The fund balances in the General and Special Revenue Funds, the net assets of the Investment Trust Fund and the amounts due to other governments in the Agency Funds as of June 30, 2000 were restated as beginning balances in the fiscal year 2000/01 statements as follows:

	General	Special Revenue	Trust & Agency
Balances, June 30, 2000 as Previously Reported	\$ 352,925	207,755	2,003,040
Adjustment to Record Revenues of New Special Revenue Funds		96,336	(96,336)
Adjustment to Recognize Revenues in Accordance with GASB 33	141,956	23,731	(135,687)
Adjustment for Grants Now Recorded as Deferred Revenue			(33,705)
Revenue and Expenditure Accruals Related to GASB 33	486	18,297	
Adjustments Due to Changes in Fund Classifications			(6,634)
Balances, June 30, 2000 as Restated	\$ 495,367	346,119	1,730,678

In the Investment Trust Fund, the Net Assets Held In Trust for Pool Participants - Beginning of Year for the fiscal year 2000/01 was restated (decreased) by \$98.3 million. This was a result of the County's thorough review of all trust and agency funds. The adjustment consisted primarily of moving various Investment Trust Fund Equity in

Pooled Cash and Investment balances in the amount of \$144.8 million to the Agency, General and Special Revenue Funds. In addition, approximately \$47.6 million of Agency Fund Equity in Pooled Cash and Investments were moved to the Investment Trust Fund. Other net assets of \$1.1 million were moved from Investment Trust Funds.

In the Agency Fund, the beginning Equity in Pooled Cash and Investments for the fiscal year 2000/01 was restated (decreased) by \$259.1 million. Again, this resulted from the trust and agency fund review. The adjustment consisted of moving various Agency Fund Equity in Pooled Cash and Investments in the amount of \$349.5 million to the General, Special Revenue and Investment Trust Funds. The Agency Fund then received approximately \$90.4 million of Equity in Pooled Cash and Investments from various Investment Trust Funds. A portion of the assets moved to the General Fund consisted of \$32.6 million that was being held there for grants subject to time restrictions and thus was reported as deferred revenue.

In April 2000, the GASB issued Statement No. 36, "Recipient Reporting for Shared Nonexchange Revenues". This statement amended a paragraph within Statement No. 33 relating to shared derived tax revenues. The County has adopted the new standard for the current year, but no reporting changes were necessary.

In June 1999, the GASB issued Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments". This is a landmark statement that requires government agencies nationwide to report both on a fund basis and also on a government-wide full accrual basis, including infrastructure assets. A comprehensive management discussion and analysis section is also being added. In June 2001, the GASB issued Statement No. 37, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus". This statement will help governments to better implement GASB Statement No. 34 as it clarifies and modifies certain provisions of that statement. It also provides for a more consistent application to meet changing requirements. In June 2001, the GASB also issued Statement No. 38, "Certain Financial Statement Note Disclosures". This statement will provide users with new information while eliminating some disclosures no longer needed. Some requirements addressed are revenue recognition, debt service, receivables, payables, interfund transfers and short term debt. The County has not adopted the new standards in Statement Nos. 34, 37 and 38 for the current year, but must adopt the new standards for the fiscal year beginning July 1, 2001. The County has not determined the effect on the financial statements in the year of adoption.

I. SUBSEQUENT EVENT DISCLOSURE

In September 2001, the San Diego Regional Building Authority issued Certificates of Participation (COP), which defeased the 1991 COP. Total debt service requirements were reduced by \$9.8 million, resulting in an economic gain of approximately \$5 million. The County's interest in this debt is 73.29%.

In November 2001, SANCAL completed the redemption of \$5,975,000 of COP issued in May 2000 to finance the San Pasqual Academy. There are no outstanding COP from the original issuance of \$19.0 million.

APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following summary discussion of selected features of the Trust Agreement, the Lease and the Assignment Agreement are made subject to all of the provisions of such documents. This summary discussion does not purport to be a complete statement of said provisions and prospective purchasers of Certificates are referred to the complete texts of said documents, copies of which are available upon request sent to the Trustee.

DEFINITIONS

“Additional Certificates” means the certificates of participation authorized by a Supplemental Trust Agreement that are executed and delivered by the Trustee under and pursuant to the Trust Agreement.

“Additional Rental” means the additional rental payments payable by the County under and pursuant to the Lease.

“Administrative Expense Fund” means the fund by that name established in accordance with the Trust Agreement.

“Assignment Agreement” means that certain Assignment Agreement, dated as of the date of the Trust Agreement, by and between the Corporation and the Trustee, as it may from time to time be amended in accordance with the terms thereof.

“Authorized Denominations” means \$5,000 or any integral multiple thereof with respect to any Certificates.

“Base Rental Payment Fund” means the fund by that name established in accordance with the Trust Agreement.

“Base Rental Payments” means the base rental payments with interest components and principal components payable by the County pursuant to the Lease.

“Board” means the Board of Supervisors of the County.

“Business Day” means a day other than (i) Saturday or Sunday or (ii) a day on which banking institutions in Los Angeles, California, New York, New York, or the city or cities in which the principal corporate trust office of the Trustee is located are authorized or required by law to be closed or (iii) a day on which the New York Stock Exchange is closed.

“Capital Finance Manager” means the person holding the office of Capital Finance Manager of the County, including any Acting or Interim Capital Finance Manager.

“Certificate of the Corporation” means an instrument in writing signed by the Chair or the Vice Chair of the Corporation.

“Certificate of the County” means an instrument in writing signed by the County Treasurer, Chief Deputy Treasurer or Chief Financial Officer or his or her designee as specified in a separate writing to the Trustee signed by the County Treasurer, Chief Deputy Treasurer or Chief Financial Officer.

“Certificate Reserve Fund” means the fund by that name established in accordance with the Trust Agreement.

“Certificate Reserve Fund Requirement” means an amount equal to the least of (i) the maximum prospective annual Base Rental Payments with respect to Outstanding Certificates and Additional Certificates to be

made by the County under the Lease (ii) 10% of the proceeds of the Certificates and any Additional Certificates, in accordance with the Tax Certificate or (iii) 125% of the average annual Base Rental Payments with respect to Outstanding Certificates and Additional Certificates to be made by the County under the Lease. Some or all of the Certificate Reserve Fund Requirement may be satisfied by crediting to the account established within the Certificate Reserve Fund a Reserve Facility.

“Certificates” means the County of San Diego Certificates of Participation (2002 Motorola Refunding).

“Chief Financial Officer” means the person holding the office of Chief Financial Officer of the County, including any Acting or Interim Chief Financial Officer.

“Closing Date” means the date on which the Certificates are initially executed and delivered to the Purchaser thereof, as provided in the Trust Agreement.

“Code” means the Internal Revenue Code of 1986, as amended, and the regulations of the United States Department of the Treasury issued thereunder, and in this regard reference to any particular Section of the Code shall include reference to all successors to such Section of the Code.

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement between the County and the Dissemination Agent dated the date of execution and delivery of the Certificates, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Corporation” means the San Diego County Capital Asset Leasing Corporation, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California.

“Cost of Issuance Fund” means the fund by that name established in accordance with the Trust Agreement.

“Costs of Issuance” means all the costs of issuing any Certificates, including, but not limited to, all printing and document preparation expenses in connection with the Trust Agreement, the Lease, the Assignment Agreement, any Certificates and any preliminary official statement and final official statement pertaining to any Certificates; rating agency fees; CUSIP Service Bureau charges; market study fees; legal fees and expenses of counsel with respect to the refinancing of the Equipment; any computer and other expenses incurred in connection with any Certificates; the fees and expenses of the Trustee including fees of its counsel; and other fees and expenses incurred in connection with the execution of the Certificates or the implementation of the refinancing of the Equipment and the refunding of the Current Lease, to the extent such fees and expenses are approved by the Corporation.

“County” means the County of San Diego, a political subdivision duly organized and existing under the Constitution and laws of the State of California.

“County Treasurer” means the person holding the office of County Treasurer-Tax Collector of the County, including any Acting or Interim County Treasurer-Tax Collector.

“Current Lease” means the Equipment Lease – Purchase Agreement dated December 29, 1995, between Motorola, Inc. and the County, as amended by that certain Rider to Equipment Lease Purchase Agreement, made by Motorola, Inc. and the County on March 5, 1996, and as further amended by that certain Rider Number Two to Equipment Lease Purchase Agreement, made by Motorola, Inc. and the County on March 5, 1996 (as so amended, the “Current Lease”).

“Earnings Fund” means the fund by that name created in the Trust Agreement.

“Equipment” means the equipment described the Lease (as the same may be changed from time to time by Removal or Substitution, as defined in the Lease).

“Event of Default” means, unless the context indicates otherwise, any occurrence or event specified in and defined by the Trust Agreement.

“Excess Amount” has the meaning set forth in the Lease.

“Expiry Date” means February 1, 2011, or the earlier date on which the Lease is terminated as provided therein.

“Financial Guaranty Insurance Policy” means the policy of insurance issued by the Insurer which insures the payment of principal and interest on the Certificates.

“Financial Newspaper” means The Wall Street Journal or The Bond Buyer or, if neither such newspaper is being regularly published, any other newspaper or journal publishing financial news and selected by the Trustee that is printed in the English language, is customarily published on each Business Day and is circulated in Los Angeles, California and New York, New York.

“Insurance Consultant” means an individual or firm retained by the County as an independent insurance consultant, experienced in the field of risk management.

“Insurance Proceeds and Condemnation Awards Fund” means the fund by that name established in accordance with the Trust Agreement.

“Insurer” means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

“Interest Fund” means the fund by that name established in accordance with the Trust Agreement.

“Interest Payment Date” means August 1, 2002 and each February 1 and August 1 thereafter.

“Lease” means that certain Equipment Lease, dated as of March 1, 2002, with respect to the Equipment, by and between the County, as lessee, and the Corporation, as lessor, as originally executed and as it may be amended from time to time.

“Lease Year” means the period from each July 1 to and including the following June 30 during the term of the Lease; except that the initial Lease Year means the period from the Closing Date to and including June 30, 2002.

“Net Proceeds” means, collectively, the net proceeds of any insurance or condemnation award resulting from any damage or destruction of any portion of the Equipment, or other proceeds to be disbursed in accordance with the Lease.

“Opinion of Counsel” means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the County.

“Outstanding” when used as of any particular time with reference to Certificates and Additional Certificates, means (subject to the Trust Agreement) all Certificates except--

- (1) Certificates and Additional Certificates previously canceled by the Trustee or delivered to the Trustee for cancellation;
- (2) Certificates and Additional Certificates which pursuant to the Trust Agreement are not deemed outstanding;
- (3) Certificates and Additional Certificates paid or deemed to have been paid in accordance with the Trust Agreement; and

(4) Certificates and Additional Certificates in lieu of or in substitution for which other Certificates or Additional Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

“Owner” means any person who shall be the registered owner of any Outstanding Certificate or Additional Certificate.

“Permitted Encumbrances” means, as of any particular time: (i) liens for general *ad valorem* taxes and assessments, if any, not then delinquent, or which the County may, pursuant to the Lease, permit to remain unpaid; (ii) the Assignment Agreement as it may be amended from time to time; (iii) the Lease as it may be amended from time to time; (iv) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (v) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions, all of a non-monetary nature, which exist of record as of the date of initial delivery of the Certificates.

“Permitted Investments” means Defeasance Securities and any of the following to the extent then permitted by applicable laws and any investment policies of the County:

(1) Any bonds or other obligations which, as to principal and interest, constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any federal agencies, to the extent such obligations are unconditionally guaranteed by the United States of America;

(2) Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks or the Federal Home Loan Bank Board, or obligations, participations or other instruments of or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association, the Government National Mortgage Association or the Federal Home Loan Mortgage Authority; or guaranteed Small Business Administration notes or portions thereof;

(3) Obligations of the State of California or of any state or any local agency of either thereof which are rated in one of the two highest long-term rating categories of Fitch, Moody's and S&P, and each of them so long as it then maintains a rating on the Certificates and a rating on such obligations;

(4) Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, with a maximum term of one year, which are eligible for purchase by the Federal Reserve System, or deposit accounts of any bank which has unsecured, uninsured and unguaranteed obligation ratings of “F-1” or “A” by Fitch, “P-1” or “A” by Moody's and “A-1” or “A” by S&P, or better, so long as each then maintains a rating on the Certificates and a rating on such obligations;

(5) Commercial paper of “prime” quality of the highest ranking or of the highest letter and numerical rating at the time of investment therein as provided by Fitch, Moody's and S&P, and each of them so long as it then maintains a rating on the Certificates and a rating on such obligations;

(6) Negotiable certificates of deposit or deposit accounts issued by a nationally or state-chartered bank, or a state or federal savings and loan association or by a state-licensed branch of a foreign bank qualified as a depository of public funds in the State of California, including the Trustee or any affiliate thereof, which has unsecured, uninsured and unguaranteed obligation ratings of “F-1” or “A” by Fitch, “P-1” or “A” by Moody's and “A-1” or “A” by S&P, or better, so long as each then maintains a rating on the Certificates and a rating on such obligations;

(7) Any repurchase agreement or reverse repurchase agreement with members of the Association of Primary Dealers of United States Government Securities or financial institutions, which are rated at the time of investment therein not lower than “A” by Fitch, “A” by Moody's and “A” by S&P and which are acceptable to the Insurer, to the extent such agreements are fully collateralized at levels acceptable to the Insurer by obligations described in clauses (1) and (2) of this definition, if the Trustee holds or appoints some intermediary bank or savings association to hold the collateral securing such agreement and the Trustee or its appointed agent has a first priority

security interest in such collateral, and the repurchase agreement or reverse repurchase agreement is free and clear of any third party lien or claim;

(8) Bonds or obligations issued by the County which are rated in one of the two highest long-term rating categories of Fitch, Moody's and S&P, and each of them so long as it then maintains a rating on the Certificates and a rating on such bonds or obligations, including bonds or obligations payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the County or by a department, board, agency or authority thereof;

(9) Medium-term notes, corporate notes, deposit notes or bank notes of a maximum of five years maturity issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this clause (9) shall be rated in a rating category of "A" or its equivalent or better by Fitch, Moody's and S&P, and each of them so long as it then maintains a rating on the Certificates and a rating on such notes;

(10) Any mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond of a maximum of five years maturity. Securities eligible for investment under this clause (10) shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by Fitch, Moody's and S&P and rated in a rating category of "AA" or its equivalent or better by Fitch, Moody's and S&P, and each of them so long as it then maintains a rating on the Certificates and a rating on such securities;

(11) Shares in money market funds investing in the securities and obligations as authorized by clauses (1) to (10), inclusive, of this definition and which comply with the investment restrictions of Articles 1 and 2 of Chapter 4 of Title 5 of the California Government Code (commencing with Section 53630). To be eligible for investment pursuant to this clause (11) these companies shall either: (1) attain the highest ranking or the highest letter and numerical rating provided by Fitch, Moody's and S&P, and each of them so long as it then maintains a rating on the Certificates and a rating on such obligations, or (2) have an investment adviser registered with the Securities and Exchange Commission with not less than five years experience investing in the securities and obligations as authorized by clauses (1) to (10), inclusive, of this definition and with assets under management in excess of \$500,000,000. The purchase price of shares of beneficial interest purchased pursuant to this clause (11) shall not include any commission that these companies may charge;

(12) Investment agreements (including guaranteed investment contracts), debt service fund float agreements and debt service reserve fund put agreements reviewed by and acceptable to Fitch, Moody's and, S&P, and each of them so long as it then maintains a rating on the Certificates and a rating on such agreement, and the Insurer;

(13) The San Diego County Pooled Investment Fund;

(14) Local Agency Investment Fund established pursuant to Section 16429.1 of the California Government Code but only to the extent that the Trustee may directly deposit and withdraw funds; and

(15) Any other investments which the County deems to be prudent investments and in which the County invests or directs the Trustee to invest, *provided* that such investments are approved by Fitch, Moody's and S&P, and each of them so long as it then maintains a rating on the Certificates and a rating on such agreement, and the Insurer; and *provided further that*, the Trustee shall be entitled to conclusively rely upon any investment direction from the County as a certification that such investment constitutes a Permitted Investment).

Any references to long-term rating categories in this definition shall not take into account any plus or minus sign or numerical modifiers.

"Prepayment Fund" means the fund by that name established in accordance with the Trust Agreement.

“Principal Corporate Trust Office” means the principal corporate trust office of the Trustee which is located in Los Angeles, California; *provided that* with respect to the presentation of Certificates for payment or for registration of transfer and exchange such term shall mean the other office or agency of the Trustee at which at any particular time, its corporate trust agency shall be conducted.

“Principal Fund” means the fund by that name established in accordance with the Trust Agreement.

“Principal Payment Date” means February 1 of each year, commencing February 1, 2003.

“Purchasers” means Morgan Stanley & Co. Incorporated, A.G. Edwards & Sons, Inc., and Estrada Hinojosa & Company, Inc., as initial purchasers of the Certificates.

“Rating Agency” means an agency which is providing a credit rating on any Certificates and shall include Moody’s Investors Service, Standard & Poor’s Ratings Services, and Fitch Ratings, or any successors thereto (but only so long as they are providing such ratings).

“Rebate Requirement” means the Rebate Requirement as defined in the Tax Certificate.

“Record Date” means the close of business on the fifteenth day of the month preceding any Interest Payment Date, whether or not such day is a Business Day.

“Removal” means the release of all or a portion of the Equipment from the leasehold of the Lease as provided in the Lease.

“Rental Payments” means, collectively, the Base Rental Payments and any Additional Rental.

“Reserve Facility” means a letter of credit or other credit facility approved by, the Insurer and issued by a financial institution, including an insurance company, or other form of credit enhancement and any replacements thereto, including, but not limited to, surety bonds and guarantees, delivered to the Trustee to meet all or a portion of the Certificate Reserve Fund Requirement.

“Substitution” means the release of all or a portion of the Equipment from the leasehold of the Lease and of the Lease, and the lease of substituted property and improvements under the leasehold and under the Lease as provided in the Lease.

“Supplemental Trust Agreement” means an agreement amending or supplementing the terms of the Trust Agreement entered into pursuant to the terms of the Trust Agreement.

“Tax Certificate” means any tax certificate executed by the County at the time of execution and delivery of Certificates relating to the requirements of Section 148 of the Code, as such certificate may be amended or supplemented.

“Trust Agreement” means the Trust Agreement by and among the Trustee, the Corporation and the County, dated as of March 1, 2002, providing for the terms and conditions of the Certificates, as originally executed and as it may from time to time be amended or supplemented in accordance therewith.

“Trustee” means State Street Bank and Trust Company of California, N.A., a national banking association duly organized and existing under and by virtue of the laws of the United States of America, and having a principal corporate office in Los Angeles, and any other bank or trust company which may at any time be substituted in the place of the Trustee, as provided in the Trust Agreement.

“Written Request of the County” means an instrument in writing signed by the Chief Financial Officer, County Treasurer-Tax Collector, the Capital Finance Manager or other officers who are specifically authorized by resolution of the Board of Supervisors of the County to sign or execute such a document on its behalf, as reflected in a Certificate of the County to such effect delivered to the Trustee.

TRUST AGREEMENT

TERMS AND CONDITIONS OF CERTIFICATES

Form of Certificates. The Certificates and the assignment to appear thereon shall be in substantially the forms, respectively, provided in the Trust Agreement, with necessary or appropriate insertions, omissions and variations as permitted or required by the Trust Agreement.

Execution of Certificates. The Certificates shall be executed by the Trustee by the manual signature of an authorized signatory of the Trustee.

Transfer and Payment of Certificates; Exchange of Certificates. All Certificates are transferable by the Owner thereof, in person or by his attorney duly authorized in writing, at the Principal Corporate Trust Office of the Trustee, on the books required to be kept by the Trustee pursuant to the provisions of the Trust Agreement, upon surrender of such Certificates for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee. The Trustee may treat the Owner of any Certificate as the absolute owner of such Certificate for all purposes, whether or not such Certificate shall be overdue, and the Trustee shall not be affected by any knowledge or notice to the contrary; and payment of the interest and principal represented by such Certificate shall be made only to such Owner, which payments shall be valid and effectual to satisfy and discharge the liability represented by such Certificate to the extent of the sum or sums so paid.

Whenever any Certificate or Certificates shall be surrendered for transfer, the Trustee shall execute and deliver a new Certificate or Certificates representing the same principal amount. The Trustee shall require the payment by any Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

Certificates may be exchanged at the Principal Corporate Trust Office of the Trustee, for a like aggregate principal amount of Certificates of other Authorized Denominations. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee shall not be required to transfer or exchange any Certificate during the period from the Record Date next preceding each Interest Payment Date to such Interest Payment Date, nor shall the Trustee be required to transfer or exchange any Certificate or portion thereof selected for prepayment from and after the date of mailing the notice of prepayment thereof.

Certificate Registration Books. The Trustee will keep at its Principal Corporate Trust Office sufficient books for the registration and transfer of the Certificates, which books shall be available for inspection by the Corporation or the County at reasonable hours and under reasonable conditions and upon reasonable notice; and upon presentation for such purpose the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer the Certificates on such books as herein above described. The Trustee will, upon written request, make copies of the foregoing available to any Owner or his agent duly authorized in writing.

Temporary Certificates. The Certificates may be initially delivered in temporary form exchangeable for definitive Certificates when ready for delivery, which temporary Certificates shall be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Trustee, shall be in fully registered form and shall contain such reference to any of the provisions of the Trust Agreement as may be appropriate. Every temporary Certificate shall be executed and delivered by the Trustee upon the same conditions and terms and in substantially the same manner as definitive Certificates. If the Trustee executes and delivers temporary Certificates, it will execute and deliver definitive Certificates without delay, and thereupon the temporary Certificates may be surrendered at the Principal Corporate Trust Office of the Trustee, in exchange for such definitive Certificates, and until so exchanged such temporary Certificates shall be entitled to the same benefits under the Trust Agreement as definitive Certificates executed and delivered under the Trust Agreement.

Certificates Mutilated, Lost, Destroyed or Stolen. If any Certificate shall become mutilated, the Trustee, at the expense of the Owner thereof, shall execute and deliver a new Certificate of like tenor, payment date and number in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Trustee of the Certificate so mutilated. Every mutilated Certificate so surrendered to the Trustee shall be canceled by it. If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee, and if such evidence is satisfactory to the Trustee an indemnity satisfactory to the Trustee shall be given, the Trustee, at the expense of the Owner thereof, shall execute and deliver a new Certificate of like tenor, numbered as the Trustee shall determine, in lieu of and in substitution for the Certificate so lost, destroyed or stolen. The Trustee may require payment of a sum not exceeding the actual cost of preparing each new Certificate executed and delivered by it as described in the foregoing and of the expenses which may be incurred by it as described in the foregoing. Any Certificate executed and delivered as described in the foregoing in lieu of any Certificate alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of the Trust Agreement with all other Certificates secured by the Trust Agreement, and the Trustee shall not be required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the amount of Certificates which may be executed and delivered under the Trust Agreement or for the purpose of determining any percentage of Certificates Outstanding under the Trust Agreement, but both the original and replacement Certificate shall be treated as one and the same. Notwithstanding the foregoing, in lieu of executing and delivering a new Certificate for a Certificate which has been lost, destroyed or stolen and which has matured or will mature within 30 days after the Trustee has received all required indemnity and payments on account of a lost, destroyed or stolen Certificate, the Trustee may make payment of such Certificate to the Owner thereof if so instructed by the County.

Execution and Delivery of Additional Certificates. In addition to the Certificates, the County, the Corporation and the Trustee may, by execution of a Supplemental Trust Agreement without the consent of the Owners, provide for the execution and delivery of Additional Certificates representing additional Base Rental Payments (which Additional Certificates shall not use the numbers "2002" in the title thereof). The Trustee may execute and deliver to or upon the request of the County such Additional Certificates, in such principal amount as shall reflect the additional principal components and interest components of the Base Rental Payments, and the proceeds of such Additional Certificates may be applied to any lawful purposes of the Corporation or the County, but such Additional Certificates may only be executed and delivered upon compliance by the County with the provisions of the Trust Agreement and subject to the following specific conditions, which are conditions precedent to the execution and delivery of any such Additional Certificates:

- (a) Neither of the County nor the Corporation shall be in default under the Trust Agreement or any Supplemental Trust Agreement or under the Lease;
- (b) Said Supplemental Trust Agreement shall provide that from such proceeds or other sources an amount shall be deposited in the Certificate Reserve Fund so that following such deposit there shall be on deposit in the Certificate Reserve Fund an amount at least equal to the Certificate Reserve Fund Requirement;
- (c) The Additional Certificates shall be payable as to principal only on a Principal Payment Date of each year in which principal components are due and shall be payable as to interest only on an Interest Payment Date of each year commencing with the first Interest Payment Date occurring after their date of execution and delivery;
- (d) The interest with respect to the Additional Certificates shall be payable at a fixed rate;
- (e) The aggregate principal amount of Certificates executed and delivered and at any time Outstanding under the Trust Agreement or under any Supplemental Trust Agreement shall not exceed any limit imposed by law, by the Trust Agreement or by any Supplemental Trust Agreement;
- (f) The Lease shall have been amended, to the extent necessary, so as to increase the Base Rental Payments payable by the County thereunder by an aggregate amount equal to the principal and interest represented by such Additional Certificates, payable at such times and in such manner as may be necessary to provide for the payment of the principal and interest represented by such Certificates; provided, however, that no such amendment shall be made such that Base Rental Payments shall be in any way conditioned upon an additional risk of construction or completion of any portion of the Equipment and that the sum of Base Rental Payments,

including any such amendment, plus Additional Rental in any year shall be in excess of the annual fair rental value of the Equipment (without taking into account the use of the proceeds of any Additional Certificates executed and delivered in connection therewith) and evidence of the satisfaction of this condition shall be made by a Certificate of the County; and

(g) Said Supplemental Trust Agreement shall provide Principal Payment Dates and/or mandatory prepayments of Additional Certificates in amounts sufficient to provide for payment of the Additional Certificates when principal and interest components of Base Rental Payments are due.

Any Additional Certificates shall be on a parity with the Certificates and each Owner thereof shall have the same rights upon an Event of Default as the Owner of any other Certificates executed and delivered under the Trust Agreement, except as otherwise provided in the Supplemental Trust Agreement under which Additional Certificates are executed and delivered.

The County shall cause to be given to each of the Rating Agencies only so long as it then maintains a rating on the Certificates, and to the Insurer notice of any execution and delivery of Additional Certificates.

Proceedings for Authorization of Additional Certificates. Whenever the Corporation and the County shall determine to authorize the execution and delivery of any Additional Certificates pursuant to the Trust Agreement, the County, the Corporation and the Trustee shall enter into a Supplemental Trust Agreement without the consent of the Owners of any Certificates, providing for the execution and delivery of such Additional Certificates, specifying the maximum principal amount of such Additional Certificates and prescribing the terms and conditions of such Additional Certificates.

Such Supplemental Trust Agreement shall prescribe the form or forms of such Additional Certificates and, subject to the provisions of the Trust Agreement, shall provide for the distinctive designation, denominations, method of numbering, dates, principal payment dates, interest rates, interest payment dates, provisions for prepayment (if desired) and places of payment of principal and interest.

Before such Additional Certificates shall be executed and delivered, the Corporation and the County shall file or cause to be filed the following documents with the Trustee:

(a) An Opinion of Counsel setting forth (1) that such Counsel has examined the Supplemental Trust Agreement and the amendment, if any, to the Lease required by the Trust Agreement; (2) that the execution and delivery of the Additional Certificates have been sufficiently and duly authorized by the Corporation and the County; (3) that said amendments to the Lease and the Supplemental Trust Agreement, when duly executed by the Corporation and the County, will be valid and binding obligations of the Corporation and the County; (4) that said amendments to the Lease have been duly authorized, executed and delivered; and (5) that the amendments to the Lease do not adversely affect the tax-exempt status of interest evidenced by Outstanding Certificates;

(b) A Certificate of the County that certain requirements of the Trust Agreement have been met, which shall include a Certificate by the County as to the annual fair rental value of the Equipment, without giving effect to the execution and delivery of the Additional Certificates and to the use of proceeds received therefrom;

(c) Certified copies of the resolutions of the Corporation and the County, authorizing the execution of the amendments to the Lease required by the Trust Agreement;

(d) An executed counterpart or duly authenticated copy of the amendments to the Lease required by the Trust Agreement; and

(e) A Certificate of the County that the amounts of the insurance required under the Lease have been increased, if necessary, to cover the amount of such Additional Certificates.

Upon the delivery to the Trustee of the foregoing instruments so as to permit the execution and delivery of the Additional Certificates in accordance with the Supplemental Trust Agreement then delivered to the Trustee, the Trustee shall execute and deliver said Additional Certificates, in the aggregate principal amount specified in such Supplemental Trust Agreement, to, or upon the request of, the County.

PROCEEDS OF CERTIFICATES

Costs of Issuance Fund

There is by the Trust Agreement established in trust a special fund designated as the "Cost of Issuance Fund" which shall be held by the [Trustee/ County] and which shall be kept separate and apart from all other funds and accounts held by the [Trustee/ County]. Moneys shall be disbursed from the Cost of Issuance Fund on such dates and in such amounts as are necessary to pay Costs of Issuance upon the Written Request of the County, stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against the Cost of Issuance Fund. On or before August 1, 2002, the Trustee, upon the written direction of the County, shall transfer any amounts then remaining in the Cost of Issuance Fund first to the Certificate Reserve Fund to the extent the amount on deposit therein is less than the Certificate Reserve Fund Requirement for such account, then to the Administrative Expense Fund held by the County to the extent that the amount on deposit therein is less than \$20,000, and thereafter to the Trustee for deposit in the Principal Fund. Upon such transfers, the Cost of Issuance Fund shall be closed.

Certificate Reserve Fund.

There is by the Trust Agreement established in trust a separate fund designated as the "Certificate Reserve Fund" which shall be held by the Trustee. Moneys in the Certificate Reserve Fund shall be used and withdrawn by the Trustee solely for the purposes set forth in the Trust Agreement.

(a) If, on any Interest Payment Date, the amount on deposit in the Interest Fund is insufficient to pay the interest due on such Interest Payment Date, the Trustee shall transfer from the Certificate Reserve Fund and deposit in the Interest Fund an amount sufficient to make up such deficiency.

(b) If, on any Principal Payment Date, the amount on deposit in the Principal Fund is insufficient to pay the principal due on such Principal Payment Date, the Trustee shall transfer from the Certificate Reserve Fund and deposit in the Principal Fund an amount sufficient to make up such deficiency.

(c) Monies on deposit in the Certificate Reserve Fund shall be withdrawn and applied by the Trustee for the final payment on the Certificates and any Additional Certificates.

In the event of any withdrawal or transfer from the Certificate Reserve Fund, the Trustee shall, within five (5) days thereafter, provide written notice to the County of the amount and the date of such transfer. If at any time the balance in the Certificate Reserve Fund shall be reduced below the Certificate Reserve Fund Requirement for such account, the first of Base Rental Payments thereafter payable by the County under the Lease and not needed to pay the interest and principal components of the Certificates to the Owners on the next Interest Payment Date, Principal Payment Date shall be used to increase the balance in the Certificate Reserve Fund to the Certificate Reserve Fund Requirement. If at any time the balance in the Certificate Reserve Fund shall be in excess of the Certificate Reserve Fund Requirement the Trustee shall, upon Written Request of the County, transfer such excess first to the County for deposit in the Excess Earnings Account in the Earnings Fund to the extent the amount on deposit therein is less than the Rebate Requirement, then to the County for deposit in the Administrative Expense Fund to the extent necessary to increase the amount therein to \$20,000 and thereafter to the Base Rental Payment Fund. At the termination of the Lease in accordance with its terms, any balance remaining in the Certificate Reserve Fund shall be released and may be transferred to such other fund or account of the County, or otherwise used by the County for any other lawful purposes, as the County may direct. For purposes of determining the amount on deposit in the Certificate Reserve Fund, all investments shall annually be valued at the cost thereof (exclusive of accrued but unpaid interest, but inclusive of commissions). Except as provided in this paragraph from Base Rental Payments not needed to pay the interest and principal components of the Certificates and from amounts available to be transferred

from the Cost of Issuance Fund pursuant to the Trust Agreement, the County shall have no obligation to replenish the Certificate Reserve Fund..

The County, upon notice to the Rating Agencies, reserves the right to substitute, at any time and from time to time, one or more Reserve Facilities from a financial institution, the long-term unsecured obligations of which are rated in the two highest rating categories of the Rating Agency in substitution for or in place of all or any portion of the Certificate Reserve Fund Requirement, under the terms of which the Trustee is unconditionally entitled to draw amounts when required for the purposes of the Trust Agreement.

Upon deposit by the County with the Trustee of any such Reserve Facility(ies), the Trustee shall, on or after the date of such deposit, transfer to the County such amounts as are on deposit in the Certificate Reserve Fund in excess of the Certificate Reserve Fund Requirement after application of the Reserve Facility(ies) thereto. The County shall, subject to any investment instructions contained in the Tax Certificate, use any such amounts transferred from the Certificate Reserve Fund for any lawful purpose of the County which will not adversely affect any current or past exclusion from gross income for federal income tax purposes of the interest component of Base Rental, if and to the extent such interest component is currently or has in the past been so excluded.

In the event one or more Reserve Facility(ies) are substituted for all or a portion of the moneys held or required to be held by the Trustee in the Certificate Reserve Fund pursuant to the terms of the Trust Agreement, then, notwithstanding any other provision thereof, (1) the Trustee shall draw upon the Reserve Facility(ies) (pro rata if more than one are in effect) for amounts which the terms of the Trust Agreement require to be transferred and applied from the Certificate Reserve Fund; provided that any cash on deposit in the Certificate Reserve Fund shall be so transferred and applied before the Reserve Facility(ies) is (are) drawn upon, and upon the deposit of replenishment funds for the Certificate Reserve Fund, the same shall be used first to repay any amounts drawn on the Reserve Facility(ies), provided the same are reinstated up to the amount of the funds so repaid. Any remaining funds shall first be applied using up any remaining deficiencies in the Certificate Reserve Fund, and any excess funds shall be deposited in the Interest Fund.

Administrative Expense Fund.

(a) There is by the Trust Agreement established in trust a special fund designated as the "Administrative Expense Fund" which shall be held by the County and which shall be kept separate and apart from all other funds held by the County.

(b) Amounts in the Administrative Expense Fund shall be paid out from time to time by the County for reasonable and necessary operating expenses of the County relating to the Certificates including, without limitation, expenses incidentally incurred in connection with the purchase or prepayment of any Certificates, which expenses shall not include the payment of principal or interest with respect to any Certificates.

(c) Amounts in the Administrative Expense Fund which the County at any time determines to be in excess of \$20,000 shall be transferred to the Trustee for deposit in the Principal Fund.

RENTAL PAYMENTS

Deposit of Base Rental Payments. The Trust Agreement, the Trustee shall deposit the amounts on deposit in the Base Rental Payment Fund at the time and in the priority and manner hereinafter described in the following respective funds and accounts, each of which the Trustee by the Trust Agreement agrees to establish and maintain until all required Base Rental Payments are paid in full pursuant to the Lease or until such date as no Certificates or any Additional Certificates are Outstanding, and the moneys in each of such funds and accounts shall be disbursed only for the purposes and uses authorized under the Trust Agreement.

(a) **Interest Fund.** The Trustee, on each Interest Payment Date, shall deposit in the Interest Fund that amount of moneys representing the portion of the Base Rental Payments designated as the interest component coming due on such Interest Payment Date with respect to the Certificates. On each Interest Payment

Date the Trustee shall pay the interest due with respect to the Certificates from amounts on deposit in the Interest Fund.

(b) Principal Fund. The Trustee, on each Principal Payment Date, shall deposit in the Principal Fund that amount of moneys representing the portion of the Base Rental Payments designated as the principal component coming due on such Principal Payment Date with respect to the Certificates. Notwithstanding anything to the contrary contained in the Trust Agreement, on the last Business Day of June of each year, commencing in June 2002, and if no Event of Default has occurred and is continuing, any amounts on deposit in the Base Rental Payment Fund and not needed to pay principal or interest then due on Certificates shall be transferred first to the Certificate Reserve Fund to make up any deficiency in the Certificate Reserve Fund Requirement, and, if no Event of Default has occurred and is continuing, any necessary amount may be transferred to the County. On each Principal Payment Date the Trustee shall pay the principal due with respect to the Certificates from amounts on deposit in the Principal Fund.

(c) Prepayment Fund. The Trustee, on the prepayment date specified in the Written Request of the County filed with the Trustee at the time that any prepaid Base Rental Payment is paid to the Trustee pursuant to the Lease, shall deposit in the account established in the Prepayment Fund that amount of moneys representing the portion of the Base Rental Payments designated as prepaid Base Rental Payments and shall use such funds to pay the principal and accrued interest on the Certificate to be prepaid on such date.

Application of Insurance Proceeds and Condemnation Awards. The Trustee shall collect and receive all moneys which may become due and payable under any insurance policies obtained pursuant to the Lease, may compromise any and all claims thereunder and shall apply the proceeds of such insurance as provided in the Lease. The Trustee shall not be responsible for the sufficiency of any insurance required by the Lease and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the County.

The County shall provide a Certificate of the County as to compliance with the insurance requirements set forth in the Trust Agreement and in the Lease pursuant to the Lease. Delivery to the Trustee of the schedule of insurance policies under the Lease shall not confer responsibility upon the Trustee as to the sufficiency of coverage or amounts of such policies. The Trustee may request, in writing, that the County deliver to the Trustee certificates or duplicate originals or certified copies of each insurance policy described in the schedule required to be delivered by the County to the Trustee pursuant to the Lease.

Except as hereinafter described, in the event of any damage to or destruction of any part of the Equipment, caused by the perils covered by the policies of insurance required to be maintained by the County pursuant to the Lease, the County shall cause the proceeds (net of costs of collection) of such insurance to be utilized for the repair, reconstruction or replacement or damaged or destroyed portion of the Equipment. The Trustee shall hold said proceeds (net of costs of collection) in a separate fund to be established and maintained by the Trustee and designated the "Insurance Proceeds and Condemnation Awards Fund," to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Equipment to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds. The Trustee shall permit withdrawals of said proceeds from time to time upon receiving the Written Request of the County of such payment, stating that the Corporation or the County has expended moneys or incurred liabilities in an amount equal to the amount therein requested to be paid over to it for the purpose of repair, reconstruction or replacement, and specifying the items for which such moneys were expended, or such liabilities were incurred. Any balance of said proceeds not required for such repair, reconstruction or replacement as evidenced by a Certificate of the County to the effect that such repair, reconstruction or replacement has been completed and all amounts owing therefor have been paid to the Certificate Reserve Fund, to the extent that the amount then on deposit therein is less than the Certificate Reserve Fund Requirement, and third be treated by the Trustee as prepaid Base Rental Payments and transferred to the Prepayment Fund and applied in the manner provided by the Trust Agreement. Alternatively, the County, at its option, if the proceeds of such insurance together with any other moneys then available for the purpose are at least sufficient to prepay all Outstanding Certificates and Additional Certificates, with the written consent of the Corporation may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Equipment and thereupon shall cause said proceeds to be transferred to the Prepayment Fund so long as the fair rental value of the remaining portion of the Equipment is not less than the Base Rental Payments payable pursuant to

the Lease with respect to the Certificates and Additional Certificates and Additional Certificates remaining Outstanding and used for the prepayment of all Outstanding Certificates and Additional Certificates pursuant to the Trust Agreement. Notwithstanding the foregoing, the County shall cause the proceeds of such insurance to be utilized for the purpose of repair, reconstruction or replacement in the event the County is directed to do so by the Corporation, and the proceeds of such insurance are sufficient to pay the costs of all of such repair, reconstruction or replacement or, if such proceeds are insufficient for that purpose, the Corporation shall deposit or provide for deposit with the Trustee, prior to the commencement of the work of repair, reconstruction or replacement, an amount equal to the amount by which such proceeds are less than the amount necessary to complete such repair, reconstruction or replacement. The proceeds of any award in eminent domain shall be deposited by the Trustee in the Prepayment Fund and shall be applied to the prepayment of Outstanding Certificates and Additional Certificates pursuant to the Lease, so long as the fair rental value of the remaining portion of the Equipment is not less than the Base Rental Payments payable pursuant to the Lease. The County shall provide a Certificate of the County to the Trustee stating that the fair rental value of the remaining portion of the Equipment is in not less than the Base Rental Payments payable pursuant to the Lease.

COVENANTS

Compliance with Trust Agreement. The Trustee will not execute or deliver any Certificates or Additional Certificates in any manner other than in accordance with the provisions of the Trust Agreement, and the Corporation and the County will not suffer or permit any default by them to occur under the Trust Agreement, but will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms of the Trust Agreement required to be complied with, kept, observed and performed by them.

Compliance with Lease and Lease. The Corporation and the County will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Lease required to be complied with, kept, observed and performed by them and, together with the Trustee, will enforce the Lease against the other party thereto in accordance with their respective terms.

Observance of Laws and Regulations. The Corporation and the County and the Trustee will faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on them by contract, or prescribed by any law of the United States of America or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or hereafter acquired by them, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges shall be maintained and preserved and shall not become abandoned, forfeited or in any manner impaired.

Other Liens. To the extent required by the Lease, the County will keep the Equipment and all parts thereof free from judgments and materialmen's and mechanics' liens and free from all claims, demands, encumbrances and other liens of whatever nature or character, and free from any claim or liability which materially impairs the County in conducting its business or utilizing the Equipment, and the Trustee at its option (after first giving the County thirty (30) days' written notice to comply therewith and failure of the County to so comply within such thirty-day period) may but will not have the obligation to defend against any and all actions or proceedings in which the validity of the Trust Agreement is or might be questioned, or may pay or compromise any claim or demand asserted in any such actions or proceedings; *provided, however*, that, in defending against any such actions or proceedings or in paying or compromising any such claims or demands, the Trustee shall not in any event be deemed to have waived or released the County from liability for or on account of any of its agreements and covenants contained in the Trust Agreement, or from its liability under the Trust Agreement to defend the validity of the Trust Agreement and to perform such agreements and covenants. The Trustee shall have no liability with respect to any determination made in good faith to proceed or decline to defend, pay or compromise any such claim or demand.

So long as any Certificates or Additional Certificates are Outstanding, neither the Corporation nor the County will create or suffer to be created any pledge of or lien on the Base Rental Payments other than pledge and lien of the Trust Agreement.

Prosecution and Defense of Suits. The County will promptly take such action from time to time as may be necessary or proper, in its reasonable discretion, to remedy or cure any known cloud upon or defect in the title to the Equipment or any portion thereof, whether now existing or hereafter developing, and will prosecute all actions, suits or other proceedings as may be appropriate for such purpose.

Accounting Records and Statements. The Trustee will keep proper accounting records in which complete and correct entries shall be made of all transactions relating to the receipt, deposit and disbursement of the Base Rental Payments, and such accounting records shall be available for inspection by the Insurer, the Corporation or the County at reasonable hours and under reasonable conditions with reasonable notice. The Trustee will upon written request at the expense of the County, make copies of the foregoing available to any Owner or his agent duly authorized in writing.

Recordation and Filing. The Corporation will file, record, register, renew, refile and rerecord all such documents, including financing statements (or continuation statements in connection therewith), as may be required by law in order to maintain the Lease, the Assignment Agreement and the Trust Agreement at all times as a security interest in the Base Rental Payments, all in such manner, at such times and in such places as may be required and to the extent permitted by law in order to fully perfect, preserve and protect the security of the Owners and the rights and security interests of the Trustee, and the Corporation will do whatever else may be necessary or be reasonably required in order to perfect and continue the lien of the Lease, the Assignment Agreement and the Trust Agreement.

Further Assurances. Whenever and so often as requested to do so by the Trustee or any Owner, the Corporation and the County will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee, and the Owners all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon them by the Trust Agreement or by the Assignment Agreement or the Lease.

Excess Earnings Account of the Earnings Fund; Tax Covenants.

(a) In addition to the other funds and accounts created pursuant to the Trust Agreement, the Trustee shall establish and maintain a fund which shall be held separate from any other fund or account established and maintained under the Trust Agreement and shall be designated the "County of San Diego Certificates of Participation (2002 Motorola Refunding) Earnings Fund" (the "Earnings Fund"). The Trustee shall administer the Earnings Fund as provided in the Trust Agreement.

(b) The Trustee shall establish and maintain in the Earnings Fund a separate account designated as the "Investment Earnings Account," and a separate account designated as the "Excess Earnings Account." All moneys in the Investment Earnings Account and the Excess Earnings Account shall be held by the Trustee in trust and shall be kept separate and apart from all other funds and money held by the Trustee. Amounts on deposit in the Investment Earnings Account shall be transferred to the Excess Earnings Account in accordance with the provisions of the Tax Certificate.

(c) Upon each transfer, upon receipt of written instructions of the County any amount remaining in the Earnings Fund or any amount on deposit in the Excess Earnings Account which exceeds the amount required to be maintained therein pursuant to the provision of the Tax Certificate shall be transferred first, to the Certificate Reserve Fund so that following such deposit there shall be on deposit in the Certificate Reserve Fund an amount at least equal to the Certificate Reserve Fund Requirement, second, to the County for deposit in the Administrative Expense Fund to the extent that the amount on deposit therein is less than \$20,000, and thereafter to the Base Rental Payment Fund. Except as set forth in the preceding sentence, amounts on deposit in the Excess Earnings Account shall only be applied to payments made to the United States in accordance with written instructions of the County.

(d) Notwithstanding defeasance of any Certificates or Additional Certificates pursuant to the Trust Agreement or anything to the contrary contained in the Trust Agreement, all amounts required to be deposited into or on deposit in the Earnings Fund shall be governed exclusively as described under this heading and by the Tax Certificate (which is incorporated in the Trust Agreement by reference). The Trustee shall be deemed conclusively

to have complied with such provisions if it follows the written directions of the County, and shall have no liability or responsibility to enforce compliance by the County with the terms of the Tax Certificate. The County shall make or cause to be made all calculations of the Rebate Requirement. The Trustee may rely conclusively upon the County's determinations, calculations and certifications required by the Trust Agreement and the Tax Certificate. The Trustee shall have no responsibility to independently make any calculation or determination or to review the County's calculations hereunder.

DEFAULT AND LIMITATIONS OF LIABILITY

Events of Default. The following events shall be Events of Default with respect to Certificates and Additional Certificates:

(a) default in the due and punctual payment of the principal of or premium, if any, on any Certificate or Additional Certificate when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for prepayment, by declaration or otherwise;

(b) default in the due and punctual payment of any installment of interest on any Certificate or Additional Certificate when and as such interest installment shall become due and payable;

(c) default by the County in the observance of any of the covenants, agreements or conditions on its part in the Trust Agreement contained, if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Corporation and the County by the Trustee, or to the County, the Corporation and the Trustee by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Certificates and Additional Certificates at the time Outstanding; *provided, however*, that if such default can be remedied but not within such sixty (60) day period and if the County has taken all action reasonably possible to remedy such default within such sixty (60) day period, such default shall not become an Event of Default for so long as the County shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time reasonably established by the Trustee; or

(d) an event of default shall have occurred and be continuing under the Lease.

Action on Default. In each and every case during the continuance of an Event of Default, the Trustee or the Owners of not less than a majority in aggregate principal amount represented by the Certificates and any Additional Certificates at the time Outstanding shall be entitled, upon notice in writing to the Corporation and the County, to exercise any of the remedies granted to the Corporation under the Lease, and in addition, to take whatever action at law or in equity may appear necessary or desirable to enforce its rights as assignee pursuant to the Assignment Agreement or to protect and enforce any of the rights vested in the Trustee or such Owners by the Trust Agreement or by such Certificates or Additional Certificates, as applicable, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement or for the enforcement of any other legal or equitable right, including any one or more of the remedies set forth in the Trust Agreement and as described under the next heading.

Other Remedies of the Trustee. The Trustee shall have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the Corporation or the County or any member, officer or employee thereof, and to compel the Corporation or the County or any such member, officer or employee to perform or carry out its or his or her duties under law and the agreements and covenants required to be performed by it or him or her contained in the Trust Agreement;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee; or

(c) by suit in equity upon the happening of any default under the Trust Agreement to require the Corporation and the County to account as the trustee of an express trust.

Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee by law or by the Trust Agreement may be enforced and exercised from time to time and as often the Trustee shall deem expedient.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee or any Owner or Owners, then subject to any adverse determination, the Trustee or such Owner or Owners and the Corporation and the County shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy in the Trust Agreement conferred upon or reserved to the Trustee is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Agreement or now or hereafter existing at law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law. The assertion or employment of any right or remedy under the Trust Agreement, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Application of Amounts After Default. Subject to the Insurer's right to direct remedies pursuant to the Trust Agreement, all payments received by the Trustee with respect to the rental of the Equipment after a default by the County pursuant to the Lease, and all damages or other payments received by the Trustee for the enforcement of any rights and powers of the Trustee under the Lease, shall be deposited into the Base Rental Payment Fund and together with all amounts then on deposit in the funds and accounts held by the Trustee (other than the Earnings Fund) as soon as practicable thereafter applied:

- (a) to the payment of all amounts due the Trustee under the Trust Agreement; and
- (b) to the payment of all amounts then due with respect to the Certificates and any Additional Certificates for principal and interest, in respect of which or for the benefit of which, money has been collected (other than Certificates and any Additional Certificates which have matured or otherwise become payable prior to such event of default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts due and payable on such Certificates and Additional Certificates for principal and interest respectively.

Trustee May Enforce Claims Without Possession of Certificates. All rights of action and claims under the Trust Agreement or the Certificates and any Additional Certificates may be prosecuted and enforced by the Trustee without the possession of any of the Certificates or Additional Certificates or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Owners of the Certificates or Additional Certificates in respect of which such judgment has been recovered.

Limitation on Suits. No Owner of any Certificate or Additional Certificate (acting in its capacity as an Owner) shall have any right to institute any proceeding, judicial or otherwise, with respect to the Trust Agreement, or for the appointment of a receiver or trustee, or for any other remedy under the Trust Agreement, unless such Owner has previously given written notice to the Trustee of a continuing Event of Default; the Owners of not less than 25% in principal amount of the Outstanding Certificates and Additional Certificates shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee under the Trust Agreement; such Owner or Owners have afforded to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; the Trustee for sixty (60) days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceedings; and no direction inconsistent with such written request has been given to the Trustee during such sixty-day period by the Owners of a majority in principal amount of the Outstanding Certificates and Additional

Certificates; it being understood and intended that no one or more Owners of Certificates or Additional Certificates shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Trust Agreement to affect, disturb or prejudice the rights of any other Owner of Certificates or Additional Certificates, or to obtain or seek to obtain priority or preference over any other Owner or to enforce any right under the Trust Agreement, except in the manner in the Trust Agreement provided and for the equal and ratable benefit of all the Owners of Certificates and Additional Certificates. Nothing in the Trust Agreement contained shall, however, affect or impair the right of any Owner to enforce the payment of the principal component of or the prepayment price of and the interest component of the Base Rental Payments represented by any Certificate or Additional Certificate at and after the maturity or earlier prepayment.

THE TRUSTEE

Employment of the Trustee. The Corporation and the County by the Trust Agreement appoint and employ the Trustee to receive, deposit and disburse the Rental Payments to execute, deliver and transfer the Certificates and Additional Certificates and to perform the other functions contained in the Trust Agreement; all in the manner provided in the Trust Agreement and subject to the conditions and terms of the Trust Agreement. By executing and delivering the Trust Agreement, the Trustee accepts the appointment and employment herein above referred to and accepts the rights and obligations of the Trustee provided in the Trust Agreement, subject to the conditions and terms of the Trust Agreement. The Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Trust Agreement, and no implied covenants or obligations shall be read into the Trust Agreement against the Trustee. In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

Duties, Removal and Resignation of the Trustee. The Corporation and the County may, with the prior written consent of the Insurer by an instrument in writing remove the Trustee and any successor thereto unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee initially a party to the Trust Agreement and any successor thereto if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of a majority in aggregate principal amount represented by the Certificates and Additional Certificates at the time Outstanding (or their attorneys duly authorized in writing) and shall appoint a successor Trustee, with the prior written consent of the Insurer, but any such successor Trustee shall be a bank with trust powers or trust company doing business and having a Principal Corporate Trust Office in California or New York, having a combined capital (exclusive of borrowed capital) and surplus of at least seventy-five million dollars (\$75,000,000) and subject to supervision or examination by federal or state authorities. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Trust Agreement the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee may at any time resign by giving written notice of such resignation to the Corporation, the Insurer and the County and by mailing notice, first class, postage prepaid, of such resignation to the Owners of the Certificates and any Additional Certificates at their addresses appearing on the books required to be kept by the Trustee pursuant to the provisions of the Trust Agreement. Upon receiving such notice of resignation, the Corporation and the County, with the prior consent of the Insurer, shall promptly appoint a successor Trustee by an instrument in writing; *provided, however*, that in the event the Corporation and the County do not appoint a successor Trustee within thirty (30) days following receipt of such notice of resignation, the resigning Trustee may, at the expense of the County, petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of a Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee.

Compensation and Indemnification of the Trustee. The County shall from time to time, subject to any written agreement then in effect with the Trustee, pay the Trustee reasonable compensation for all its services rendered under the Trust Agreement and reimburse the Trustee for all its advances and expenditures under the Trust Agreement, including but not limited, to advances to and fees and expenses of accountants, agents, appraisers, consultants or other experts, and counsel not directly employed by the Trustee but an attorney or firm of attorneys

retained by the Trustee, employed by it in the exercise and performance of its rights and obligations under the Trust Agreement; *provided, however*, that the Trustee shall not have any lien for such compensation or reimbursement against any moneys held by it in any of the funds established under the Trust Agreement or under the Lease (except that such compensation or reimbursement may be made from the Cost of Issuance Fund to the extent provided in the Trust Agreement or the application of amounts after default as provided in the Trust Agreement). The County, to the extent permitted by law, shall indemnify the Trustee, its directors, officers, employees and agents, and hold them harmless against any loss, claim, liability, expenses or advances, including, but not limited to fees and expenses of counsel and other experts, incurred or made without negligence or willful misconduct on the part of the Trustee arising out of: (i) the Trustee's acceptance or administration of the trust under the Trust Agreement, or the exercise or performance of any of its powers or duties thereunder; or (ii) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading in any official statement or other offering circular utilized in connection with the sale of the Certificates. The Trustee may take whatever legal actions are lawfully available to it directly against the Corporation or the County. The rights of the Trustee under the Trust Agreement are in addition to the rights granted to the Trustee pursuant to the Lease. Notwithstanding anything to the contrary contained in the Trust Agreement, the Trustee shall not be entitled to seek indemnity from the County as a condition precedent to paying holders of any Certificates any amounts due such holders under the Trust Agreement or any prepayment of any Certificates pursuant to the Trust Agreement.

Except as otherwise expressly provided in the Trust Agreement, no provision of the Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Trust Agreement or in the exercise of any of its rights or powers under the Trust Agreement.

Protection of the Trustee. The Trustee shall be protected and shall incur no liability in acting or proceeding in good faith upon any affidavit, bond, certificate, consent, notice, request, requisition, resolution, statement, telegram, voucher, waiver or other paper or document which it shall in good faith believe to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions of the Trust Agreement, and the Trustee shall not be under any duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee shall not be bound to recognize any person as an Owner of any Certificate or Additional Certificate or to take any action at the request of any such person unless such Certificate or Additional Certificate shall be deposited with the Trustee or satisfactory evidence of the ownership of such Certificate or Additional Certificate shall be furnished to the Trustee. The Trustee shall not be under any obligation to exercise any of the rights or powers vested in it by the Trust Agreement at the request or direction of any of the Owners of the Certificates or Additional Certificates, unless such Owners shall have offered to the Trustee security or indemnity reasonably satisfactory to the Trustee, against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. The Trustee may consult with counsel, who may be counsel to the Corporation or the County, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect to any action taken or suffered by it under the Trust Agreement in good faith in accordance therewith.

The Trustee shall not be responsible for the sufficiency of the Certificates or any Additional Certificates, the Lease, or of the assignment made to it by the Assignment Agreement, or for statements made in the preliminary or final official statement relating to the Certificates or any Additional Certificates, or of the title to or value of the Equipment.

The Trustee shall not be required to take notice or be deemed to have notice of any default or Event of Default under the Trust Agreement or an Event of Default under the Trust Agreement, except failure of any of the payments to be made to the Trustee required to be made under the Trust Agreement unless the Trustee shall be specifically notified in writing of such default or Event of Default by the County, the Corporation or by the Owners of not less than 25% in aggregate principal amount the Certificates and Additional Certificates then Outstanding. The Trustee shall be entitled to rely on the County's Certificate to the effect that no petition in bankruptcy is pending or has been filed by or against the County.

Whenever in the administration of its rights and obligations under the Trust Agreement the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Trust Agreement, such matter (unless other evidence in respect thereof be specifically prescribed in the Trust Agreement) may be deemed to be conclusively proved and established by a Certificate of the County or a Certificate of the Corporation, and such certificate shall be full warrant to the Trustee for any action taken or suffered under the provisions of the Trust Agreement upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee may buy, sell, own, hold and deal in any of the Certificates and Additional Certificates and may join in any action which any Owner may be entitled to take with like effect as if the Trustee were not a party to the Trust Agreement. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with the Corporation or the County, and may act as agent, depositary or trustee for any committee or body of Owners or of owners of obligations of the Corporation or the County as freely as if it were not the Trustee under the Trust Agreement.

The Trustee may, to the extent reasonably necessary, execute any of the trusts or powers of the Trust Agreement and perform any rights and obligations required of it under the Trust Agreement by or through agents, attorneys or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its rights and obligations under the Trust Agreement, and the Trustee shall not be answerable for the default or misconduct of any such agent, attorney or receiver selected by it with reasonable care. The Trustee shall not be liable for any error of judgment made by it in good faith unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

The Trustee shall not be answerable for the exercise of any trusts or powers under the Trust Agreement or for anything whatsoever in connection with the funds established under the Trust Agreement, except only for its own willful misconduct, negligence or breach of an obligation under the Trust Agreement.

The Trustee's rights to immunities and protection from liability under the Trust Agreement and its rights to payment of its fees and expenses shall survive its resignation or removal and final payment or defeasance of the Certificates and Additional Certificates. All indemnifications and releases from liability granted herein to the Trustee shall extend to the directors, officers, employees and agents of the Trustee.

The Trustee shall have no responsibility or liability with respect to any information, statements or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of the Certificates.

Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided that such company shall be eligible under the Trust Agreement shall be the successor to the Trustee without the execution or filing of any paper or further act, anything in the Trust Agreement to the contrary notwithstanding.

AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT

Amendment or Supplement. The Trust Agreement and the rights and obligations of the Corporation, the County, the Owners and the Trustee under the Trust Agreement may be amended or supplemented at any time by an amendment of the Trust Agreement or supplement to the Trust Agreement which shall become binding when there has been obtained the written consent of the Insurer or the written consents of the Owners of a majority in aggregate principal amount of the Certificates and Additional Certificates then Outstanding, exclusive of Certificates and Additional Certificates disqualified as provided in the Trust Agreement, are filed with the Trustee. No such amendment or supplement shall (1) extend the fixed Principal Payment Date of any Certificate or reduce the rate of interest represented thereby or extend the time of payment of such interest or reduce the amount of principal represented thereby without the prior written consent of the Owner of each Certificate and Additional Certificate so affected, or (2) reduce the percentage of Owners whose consent is required for the execution of any amendment of the Trust Agreement or supplement to the Trust Agreement without the prior written consent of the Owners of all Certificates or Additional Certificates then Outstanding, or (3) modify any of the rights or obligations of the Trustee

or the Insurer without the prior written consent of the affected party thereto, or (4) modify any provision of the Trust Agreement expressly recognizing or granting rights in or to the Insurer or (5) amend as described under this heading without the prior written consent of the Owners of all Certificates or Additional Certificates then Outstanding.

The Trust Agreement and the rights and obligations of the Corporation, the County, the Owners and the Trustee under the Trust Agreement may also be amended or supplemented at any time by an amendment of the Trust Agreement or supplement to the Trust Agreement which shall become binding upon execution with the prior written consent of the Insurer, which consent shall not be unreasonably withheld, but without the written consents of any Owners, but only to the extent permitted by law and after receipt of an unqualified approving Opinion of Counsel and only for any one or more of the following purposes:

(a) to add to the agreements, conditions, covenants and terms required by the Corporation or the County to be observed or performed in the Trust Agreement, other agreements, conditions, covenants and terms thereafter to be observed or performed by the Corporation or the County, or to surrender any right or power reserved in the Trust Agreement to or conferred in the Trust Agreement on the Corporation or the County, and which in either case shall not materially adversely affect the interests of the Owners; or

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Trust Agreement or in regard to questions arising under the Trust Agreement which the Corporation or the County may deem desirable or necessary and not inconsistent with the Trust Agreement, and which shall not materially adversely affect the interests of the Owners; or

(c) for any other reason, *provided* such amendment or supplement does not materially adversely affect the interests of the Owners, *provided, further* that the Corporation, the County and the Trustee may rely in entering into any such amendment or supplement upon an Opinion of Counsel stating that the requirements of this clause (c) have been met with respect to such amendment or supplement.

The Trustee shall not be required to enter into or consent to any supplemental indenture which, in the sole judgment of the Trustee, might adversely affect the rights, obligations, powers, privileges, indemnities, immunities provided the Trustee in the Trust Agreement.

Disqualified Certificates. Certificates and Additional Certificates owned or held by or for the account of the County (but excluding Certificates and Additional Certificates held in any pension or retirement fund of the County) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Certificates and Additional Certificates provided in the Trust Agreement, and shall not be entitled to consent to or take any other action provided in the Trust Agreement, and the Trustee may adopt appropriate regulations to require each Owner, before his consent provided for in the Trust Agreement shall be deemed effective, to reveal if the Certificates and Additional Certificates as to which such consent is given are disqualified as provided in the Trust Agreement. The Trustee shall not be deemed to have knowledge that any Certificate is owned by the County unless the County is the registered Owner.

Endorsement or Replacement of Certificates After Amendment or Supplement. After the effective date of any action taken as hereinabove described and as provided in the provisions of the Trust Agreement relating to amendment of or supplement to Trust Agreement, the Trustee may determine that the Certificates and Additional Certificates may bear a notation by endorsement in form approved by the Trustee as to such action, and in that case upon demand of the Owner of any Outstanding Certificate and Additional Certificates and presentation of such Certificate or Additional Certificate for such purpose at the Principal Corporate Trust Office of the Trustee a suitable notation as to such action shall be made on such Certificate. If the Trustee shall receive an Opinion of Counsel advising that new Certificates or Additional Certificates modified to conform to such action are necessary, modified Certificates shall be prepared, and in that case upon demand of the Owner of any Outstanding Certificates or Additional Certificates such new Certificates shall be exchanged at the Principal Corporate Trust Office of the Trustee, without cost to each Owner for Certificates or Additional Certificates then Outstanding upon surrender of such Outstanding Certificates or Additional Certificates.

Amendment by Mutual Consent. The provisions of the Trust Agreement relating to amendment of or supplement to Trust Agreement shall not prevent any Owner from accepting any amendment as to the particular

Certificates or Additional Certificates owned by it, *provided* that due notation thereof is made on such Certificates or Additional Certificates.

Attorney's Opinion Re Supplemental Trust Agreements. The Trustee may obtain an opinion of counsel that any Supplemental Trust Agreement complies with the provisions of the Trust Agreement, and the Trustee may conclusively rely upon such opinion. The Trustee may in its discretion, but shall not be obligated to, enter into any amendment or supplement to the Trust Agreement authorized by the Trust Agreement which adversely affects the Trustee's own rights or immunities under the Trust Agreement or otherwise.

DEFEASANCE

Discharge of Certificates and Trust Agreement.

(a) If the Trustee shall pay or cause to be paid or there shall otherwise be paid (i) to the Owners of all Outstanding Certificates and Additional Certificates the interest and principal represented thereby at the times and in the manner stipulated in the Trust Agreement and therein, and (ii) all other amounts due under the Trust Agreement and under the Lease; then such Owners shall cease to be entitled to the pledge of and lien on the Base Rental Payments as provided in the Trust Agreement, and all agreements and covenants of the Corporation, the County and the Trustee to such Owners under the Trust Agreement shall thereupon cease, terminate and become void and shall be discharged and satisfied.

(b) Any Outstanding Certificates or Additional Certificates shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning and with the effect expressed under this heading if (i) in case said Certificates or Additional Certificates are to be redeemed on any date prior to their maturity, the County shall have given to the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, in accordance with the provisions of the Trust Agreement, notice of prepayment of such Certificates on said prepayment date, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or securities specified in clause (1) of the definition of Permitted Investments which are not callable or subject to prepayment prior to their respective maturity dates, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited with or held by the Trustee at the same time, shall be sufficient (as verified by a report of an independent certified public accountant or other recognized verification service provider), to pay when due the principal with respect to or prepayment price (if applicable) of, and interest due and to become due with respect to said Certificates or Additional Certificates on and prior to the prepayment date or maturity date thereof, as the case may be, and (iii) in the event any of said Certificates or Additional Certificates are not to be prepaid within the next succeeding sixty (60) days, the County shall have given the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, as soon as practicable in the same manner as a notice of prepayment is mailed pursuant to the Trust Agreement, a notice to the Owners of such Certificates or Additional Certificates and to the securities depository and information services specified in the Trust Agreement that the deposit required by (ii) above has been made with the Trustee and that said Certificates or Additional Certificates are deemed to have been paid in accordance with the Trust Agreement and stating such maturity or prepayment dates upon which moneys are to be available for the payment of the principal or prepayment price (if applicable) of said Certificates or Additional Certificates. Neither the securities nor moneys deposited with the Trustee as described in this paragraph nor principal or interest payments on any such securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or prepayment price (if applicable) of, and interest on said Certificates or Additional Certificates; *provided* that any cash received from such principal or interest payments on such obligations deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, and at the direction of the County, be reinvested in securities specified in (ii) above maturing at times and in amounts, together with the other moneys and payments with respect to securities then held by the Trustee pursuant to the Trust Agreement, sufficient to pay when due the principal or prepayment price (if applicable) of, and interest to become due with respect to said Certificates or Additional Certificates on and prior to such prepayment date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the County, as received by the Trustee, free and clear of any trust, lien or pledge. Nothing in the foregoing shall preclude prepayments pursuant to the provisions of the Trust Agreement relating to terms of prepayment.

Any release as described in the preceding paragraph shall be without prejudice to the right of the Trustee to be paid reasonable compensation for all services rendered by it under the Trust Agreement and all its reasonable expenses, charges and other disbursements and those of its attorneys, agents and employees, incurred on and about the administration of trusts by the Trust Agreement created and the performance of its powers and duties under the Trust Agreement; *provided, however*, that the Trustee shall have no right, title or interest in, or lien on, any moneys or securities deposited pursuant to the provisions of the Trust Agreement relating to defeasance.

(c) After the payment of all the interest and principal represented by all Outstanding Certificates and Additional Certificates and all other amounts due under the Trust Agreement and under the Lease as provided in the Trust Agreement, the Trustee shall execute and deliver to the Corporation and the County all such instruments as may be necessary or desirable to evidence the discharge and satisfaction of the Trust Agreement with respect to such Certificates or Additional Certificates, and the Trustee shall pay over or deliver to the County all moneys or securities held by it pursuant to the Trust Agreement which are not required for the payment of the interest and principal represented by such Certificates and Additional Certificates. Notwithstanding the discharge and satisfaction of the Trust Agreement with respect to any Certificates or Additional Certificates, Owners of Certificates and Additional Certificates shall thereafter be entitled to payments due under the Certificates and Additional Certificates pursuant to the Lease, but only from amounts deposited pursuant to the Trust Agreement and from no other source.

Unclaimed Moneys. Anything contained in the Trust Agreement to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of the interest or principal represented by any of the Certificates or Additional Certificates which remain unclaimed for two (2) years after the date when the payments represented by such Certificates or Additional Certificates have become payable, if such moneys were held by the Trustee at such date, or for two (2) years after the date of deposit of such moneys if deposited with the Trustee after the date when the interest and principal represented by such Certificates or Additional Certificates have become payable, shall be used to pay amounts due but unpaid as Additional Rental under the Trust Agreement, and thereafter repaid by the Trustee to the County as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the County for the payment of the interest and principal represented by such Certificates or Additional Certificates; *provided, however*, that before being required to make any such payment to the County, the Trustee shall at the expense of the County, cause to be published once a week for two (2) successive weeks in a Financial Newspaper a notice that such moneys remain unclaimed and that after a date named in such notice, which date shall not be less than thirty (30) days after the date of the first publication of such notice, the balance of such moneys then unclaimed will be returned to the County.

FINANCIAL GUARANTY INSURANCE POLICY

Payments from Financial Guaranty Insurance Policy. Payment of the principal and interest with respect to the Certificates shall be insured by the Financial Guaranty Insurance Policy provided by the Insurer. So long as the Financial Guaranty Insurance Policy is in full force and effect and the Insurer is not in default thereunder, the County and the Trustee agree to comply with the following provisions by which the Insurer will pay any principal or interest payment due and payable with respect to the Certificates but for which there are insufficient funds for the payment thereof:

(a) At least one day prior to all Interest Payment Dates, the Trustee will determine whether there will be sufficient funds in the funds and accounts maintained by it under the Trust Agreement to pay the principal or interest with respect to the Certificates on such Interest Payment Date. If the Trustee determines that there will be insufficient funds in such funds or accounts, the Trustee shall so notify the Insurer. Such notice shall specify the amount of the anticipated deficiency, the Certificates to which such deficiency is applicable and whether such deficiency will be as to principal or interest, or both. If the Trustee has not so notified the Insurer at least one day prior to an Interest Payment Date, the Insurer will make payments of principal or interest with respect to the Certificates on or before the first day next following the date on which the Insurer shall have received notice of nonpayment from the Trustee.

(b) The Trustee shall, after giving notice to the Insurer as provided in (a) above, make available to the Insurer and, at the Insurer's direction, to the United States Trust Company of New York, as

insurance trustee for the Insurer or any successor insurance trustee (the "Insurance Trustee"), the registration books for the Certificates maintained by the Trustee and all records relating to the funds and accounts maintained by the Trustee under the Trust Agreement.

(c) The Trustee shall provide the Insurer and the Insurance Trustee with a list of the Owners of the Certificates entitled to receive principal or interest payments from the Insurer under the terms of the Financial Guaranty Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the Owners of the Certificates entitled to receive full or partial interest payments from the Insurer and (ii) to pay principal represented by the Certificates surrendered to the Insurance Trustee by the Owners of the Certificates entitled to receive full or partial principal payments from the Insurer.

(d) The Trustee shall, at the time it provides notice to the Insurer pursuant to (a) above, notify Owners of the Certificates entitled to receive the payment of principal or interest with respect to the Certificates from the Insurer (i) as to the fact of such entitlement, (ii) that the Insurer will remit to them all or part of the interest payments next coming due upon proof of entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of such Owner's right to payment, (iii) that should they be entitled to receive full payment of principal from the Insurer, they must surrender their Certificates (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Certificates to be registered in the name of the Insurer) for payment to the Insurance Trustee, and not the Trustee, and (iv) that should they be entitled to receive partial payment of principal from the Insurer, they must surrender their Certificates for payment thereon first to the Trustee who shall note on such Certificates the portion of the principal paid by the Trustee, and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

(e) In the event that the Trustee has notice that any payment of principal or interest with respect to the Certificates which has become Due For Payment (as defined in the Financial Guaranty Insurance Policy) and which is made to such Owner by or on behalf of the County has been deemed a preferential transfer and theretofore recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall notify the Insurer and, at the time the Insurer is notified, notify all Owners of the Certificates that in the event that any Owner's payment is so recovered, such Owner will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee shall furnish to the Insurer its records evidencing the payments of principal and interest with respect to the Certificates which have been made by the Trustee and subsequently recovered from such Owner and the dates on which such payments were made.

(f) In addition to those rights granted the Insurer under the Trust Agreement, the Insurer shall, to the extent it makes payment of principal or interest with respect to the Certificates, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Financial Guaranty Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the Insurer's rights as subrogee on the registration books for the Certificates maintained by the Trustee upon receipt from the Insurer of proof of the payment of interest thereon to the Owners of the Certificates, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Insurer's rights as subrogee on the registration books for the Certificates maintained by the Trustee upon surrender of the Certificates by the Owners thereof, together with proof of the payment of principal thereof.

(g) Notwithstanding anything in the Trust Agreement to the contrary, in the event that the principal and/or interest due with respect to the Certificates shall be paid by the Insurer pursuant to the Financial Guaranty Insurance Policy, such Certificates shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the County, and the assignment and pledge of the Base Rental Payment Fund and the Certificate Reserve Fund and all covenants, agreements and other obligations of the County to the Owners of the Certificates shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such Owners.

Information To Be Given To Ambac Assurance Corporation. For such time as the Financial Guaranty Insurance Policy shall be in full force and effect and so long as the Insurer is not in default under its Financial

Guaranty Insurance Policy, the County or the Trustee shall furnish to the Insurer (to the attention of the Surveillance Department, unless otherwise indicated):

(a) So long as the Insurer is not in default under the Financial Guaranty Insurance Policy, the County shall furnish to the Insurer (i) written notice, at least 30 days in advance of soliciting consents of Owners, with respect to each amendment to the Trust Agreement or the Lease requiring the consent of Owners, and (ii) a copy of any notice to be given to the registered owners of the Certificates, including, without limitation, notice of any prepayment of or defeasance of Certificates, and any certificate rendered pursuant to the Trust Agreement relating to the security for the Certificates.

(b) The Trustee shall notify the Insurer of any failure of the County to provide notices or certificates required under the Trust Agreement.

(c) Upon the occurrence of an Event of Default which is continuing, the County will permit the Insurer to discuss the affairs, finances and accounts of the County or any information the Insurer may reasonably request regarding the security for the Certificates with appropriate officers of the County. The Trustee and the County will permit the Insurer to have access to the Equipment and have access to and to make copies of all books and records relating to the Certificates at any reasonable time.

(d) Upon the occurrence of certain Events of Default set forth in the Trust Agreement, which is continuing, the Insurer shall have the right to request an accounting, to be completed at the County's expense within thirty (30) days after receipt of such written request, provided, however, that if compliance cannot occur within such period, then such period will be extended so long as compliance is begun within such period and diligently pursued, but only if such extension would materially adversely affect the interests of any registered owner of the Certificates.

(e) Notwithstanding any other provision of the Trust Agreement, the Trustee or the County shall immediately notify the Insurer if at any time there are insufficient moneys to make any payments of principal and/or interest as required and immediately upon the occurrence of any Event of Default under the Trust Agreement.

(f) The Trustee or the County shall forward to the Insurer a copy of the County's annual certification provided pursuant to the Lease that the insurance policies required by the Lease are in full force and effect, and will provide the Insurer with copies of such policies upon request.

Consent of Insurer. So long as the Insurer is not in default under the Financial Guaranty Insurance Policy, the Insurer's consent shall be required for the initiation or approval of any action which requires the consent of the Owners, including, but not limited to, consent, when required, for the following purposes: (i) execution and delivery of any Supplemental Trust Agreement or any amendment, supplement or change to or modification of the Lease; and (ii) removal of the Trustee and selection and appointment of any successor trustee. Notwithstanding anything to the contrary in the Trust Agreement, the rights given to the Insurer thereunder to give consents, directions and approvals shall not be effective so long as it is in default of its obligations under the Financial Guaranty Insurance Policy.

Consent of Insurer in the Event of Insolvency. So long as the Insurer is not in default under the Financial Guaranty Insurance Policy, any reorganization or liquidation plan with respect to the County must be acceptable to the Insurer. In the event of any reorganization or liquidation, the Insurer shall have the right to vote on behalf of all Owners who hold Certificates absent a default under the Financial Guaranty Insurance Policy.

Exercise of Remedies Upon Default. Notwithstanding anything to the contrary in the Trust Agreement, so long as the Insurer is not in default under the Financial Guaranty Insurance Policy, upon the occurrence and continuance of an Event of Default as defined therein, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners under the Trust Agreement.

Limitation on Modification. Any provision of the Trust Agreement expressly recognizing or granting rights in or to the Insurer may not be amended in a manner which affects the rights of the Insurer thereunder without the prior written consent of the Insurer.

Effect of Financial Guaranty Insurance Policy. Notwithstanding any other provision of the Trust Agreement, in determining whether any actions taken pursuant to the terms and provisions of the Trust Agreement or under the Lease are adverse to the interests of the Owners of the Certificates, the effect on the Owners shall be considered as if there were no Financial Guaranty Insurance Policy.

Insurer as Third Party Beneficiary. To the extent that the Trust Agreement confers upon or gives or grants to the Insurer any right, remedy or claim under or by reason of the Trust Agreement, the Insurer is explicitly recognized as being a third-party beneficiary thereunder and may enforce any such right, remedy or claim conferred, given or granted thereunder.

MISCELLANEOUS

Benefits of Trust Agreement Limited to Parties. Nothing contained in the Trust Agreement, expressed or implied, is intended to give to any person other than the Corporation, the County, the Trustee, the Insurer and the Owners any claim, remedy or right under or pursuant to the Trust Agreement, and any agreement, condition, covenant or term required in the Trust Agreement to be observed or performed by or on behalf of the Corporation or the County shall be for the sole and exclusive benefit of the Trustee, the Insurer and the Owners.

Consent of Insurer. The consent of the Insurer shall be required for the execution and delivery of any Supplemental Trust Agreement or any amendment, supplement or change to or modification of the Lease.

Successor Deemed Included in all References to Predecessor. Whenever either the Corporation, the County or the Trustee or any officer thereof is named or referred to in this summary of the Trust Agreement, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the Corporation, the County or the Trustee or such officer, and all agreements, conditions, covenants and terms required by the Trust Agreement to be observed or performed by or on behalf of the Corporation, the County or the Trustee or any officer thereof shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Funds. Any fund required to be established and maintained in the Trust Agreement by the County or the Trustee may be established and maintained in the accounting records of the County or the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such funds shall at all times be maintained in accordance with sound accounting practice and with due regard for the protection of the security of the Certificates and the rights of the Owners. The Trustee may establish such funds and accounts as it deems necessary to perform its obligations under the Trust Agreement.

The County and the Trustee may commingle any of the moneys held by it under the Trust Agreement for investment purposes only; *provided, however*, that the County and the Trustee shall account separately for the moneys in each fund or account established pursuant to the Trust Agreement. The Trustee may establish such funds and accounts as it deems necessary to perform its obligations under the Trust Agreement.

Investments. Any moneys held by the County in the funds and accounts established under the Trust Agreement shall be invested only in Permitted Investments. Any moneys held by the Trustee in the funds and accounts established under the Trust Agreement shall be invested by the Trustee upon the Written Request of the County received at least two Business Dates prior to the investment date only in Permitted Investments. In the absence of such direction, moneys shall be invested by the Trustee solely in Permitted Investments set forth in clause (11) of the definition thereof. The Trustee shall not be liable or responsible for any loss suffered in connection with any such investment made by it under the terms of and in accordance with the Trust Agreement. The Trustee may sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment of the funds so invested, and the Trustee shall not be liable or responsible

for any losses resulting from any such investment sold or presented for redemption. Any interest or profits on such investments shall be deposited in the Investment Earnings Account of the Earnings Fund and are to be transferred as provided in the Trust Agreement. The County acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the County the right to receive brokerage confirmations of security transactions as they occur, the County will not receive such confirmations to the extent permitted by law. The Trustee will furnish the County periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Trust Agreement. The Trustee may make any investments under the Trust Agreement through its own bond or investment department or trust investment department, or those of its parent or any affiliate. The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any Permitted Investment purchased by the Trustee under the Trust Agreement. For purposes of determining the amount on deposit in any fund or account under the Trust Agreement, all investments shall be valued annually at the amortized cost thereof (exclusive of accrued but unpaid interest, but inclusive of commissions). Investments in the Certificate Reserve Fund shall mature, or be subject to tender, redemption or withdrawal at the option of the holder thereof, not later than five years from the date of investment. Any Permitted Investments that are registrable securities shall be registered in the name of the Trustee, as trustee under the Trust Agreement.

California Law. The Trust Agreement shall be construed and governed in accordance with the laws of the State of California.

LEASE

General

The Lease provides the terms and conditions of the lease of the Equipment, situated in the State of California, County of San Diego, described in the Lease (the "Equipment"), by the Corporation. Certain provisions of the Lease are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entireties by reference to the full terms of the Lease.

Equipment

Lease of the Equipment. The Corporation leases to the County, and the County rents from the Corporation, the Equipment, on the conditions and terms set forth in the Lease. The County agrees and covenants that during the term of the Lease, except as otherwise provided, it will use the Equipment for public purposes so as to afford the public the benefits contemplated by the Lease and so as to permit the Corporation to carry out its agreements and covenants contained in the Lease and in the Trust Agreement, and the County further agrees and covenants that during the term of the Lease it will not abandon or vacate the Equipment.

Quiet Enjoyment. The parties to the Lease mutually covenant that the County, so long as it observes and performs the agreements, conditions, covenants and terms required to be observed or performed by it contained in the Lease and is not in default under the Lease, shall at all times during the term of the Lease peaceably and quietly have, hold and enjoy the Equipment without suit, trouble or hindrance from the Corporation.

Right of Entry and Inspection. The Corporation shall have the right to enter the facilities of the County in which any of the Equipment is located and inspect the same during reasonable business hours (and in emergencies at all times) for any purpose connected with the Corporation's rights or obligations under the Lease and for all other lawful purposes.

Prohibition Against Encumbrance or Sale. The County will not create or suffer to be created any mortgage, pledge, lien, charge or encumbrance upon the Equipment without obtaining the prior written consent of the Corporation and the Insurer, except Permitted Encumbrances. The County will not sell or otherwise dispose of the Equipment or any property essential to the proper operation of the Equipment without obtaining the prior written consent of the Corporation and the Insurer, except as otherwise provided in the Lease. Notwithstanding anything to the contrary in the Lease, with the consent of the Insurer, which will not be unreasonably withheld, the County may

assign, transfer or sublease any and all of the Equipment or its other rights under the Lease, provided that (a) the rights of any assignee, transferee or sublessee shall be subordinate to all rights of the Corporation under the Lease, (b) no such assignment, transfer or sublease shall relieve the County of any of its obligations under the Lease, (c) the assignment, transfer or sublease shall not result in a breach of any covenant of the County contained in the Lease, and (d) no such assignment, transfer or sublease shall confer upon the parties thereto any remedy which allows recovery of possession of the Equipment unless concurrently with granting such remedy the same shall be also granted under the Lease by an amendment to the Lease which shall in all instances be prior to and superior to any such assignment, transfer or sublease.

Liens and Improvements. In the event the County shall at any time during the term of the Lease cause any improvements or modifications to the Equipment to be supplied in or upon or attached to the Equipment, the County shall pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the County in, upon, about or relating to the Equipment and shall keep the Equipment free of any and all liens against the Equipment or the Corporation's interest therein. In the event any such lien attaches to or is filed against the Equipment or the Corporation's interest therein, and the enforcement thereof is not stayed, or if so stayed such stay thereafter expires, the County shall cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the County shall forthwith pay and discharge or cause to be paid and discharged such judgment. Any such improvements or modifications shall be such that the same may be removed without damage or destruction to the Equipment so that the Equipment may be returned at the end of the term of the Lease in the same condition as when provided to the County.

Substitution or Removal of Equipment. The County and the Corporation may amend the Lease, with the written consent of the Insurer, to substitute other equipment (the "Substituted Equipment") for existing Equipment or to remove Equipment (including undivided interests therein) from the definition of Equipment, upon compliance with all of the conditions set forth in the following paragraph. After a Substitution or Removal, the part of the Equipment for which the Substitution or Removal has been effected shall be released from the leasehold/license under the Lease.

No Substitution or Removal shall take place under the Lease until the County delivers to the Corporation and the Trustee the following:

- (1) A Certificate of the County containing a description of all or part of the Equipment to be released and, in the event of a Substitution, a description of the Substituted Equipment to be substituted in its place;
- (2) An Amendment to the Lease which shall reflect (A) the Substitution or Removal and (B) any conditions precedent to the written consent of the Insurer, which conditions may include, but not be limited to, requirements regarding the nature and scope of the insurance to be provided under the Lease, the nature and scope of the responsibility of the County to make Base Rental Payments and other payments under the Lease, and the utilization of any insurance proceeds.
- (3) An Opinion of Counsel to the effect that the amendments to the Lease contemplating Substitution or Removal have been duly authorized, executed and delivered and constitute the valid and binding obligations of the County and the Corporation, enforceable in accordance with their terms;
- (4) An Opinion of Counsel that the Substitution or Removal does not cause the interest with respect to the Certificates to be includable in gross income of the Owners thereof for federal income tax purposes;
- (5) A Certificate of the County stating that the County has complied with the covenants contained in the Lease with respect to the Substituted Equipment;
- (6) A written consent of the Insurer; and

(7) Evidence that the County has delivered to the Rating Agencies copies of the documents and certificates described in clauses (1) and (6) above.

Term of Lease

The term of the Lease shall commence on the Closing Date, and shall end on the Expiry Date, unless sooner terminated as hereinafter described. If prior to the Expiry Date, the rental payable under the Lease shall be fully paid and all Certificates and Additional Certificates shall have been fully paid or defeased, in accordance with the Trust Agreement, the term of the Lease shall end ten days thereafter or ten days after written notice by the County to the Corporation to the effect that the rental payable under the Lease shall be fully paid and all Certificates and Additional Certificates have been fully paid, whichever is earlier, and the Lease shall thereupon terminate.

The obligation of the County to pay Base Rental Payments and Additional Rental shall commence on the Closing Date, subject to the limitations set forth in the Lease.

Use of Proceeds

The proceeds of the Certificates will be used to prepay the Current Lease in full, establish and fund a Cost of Issuance Fund and a Certificate Reserve Fund.

Rental Payments

Base Rental. Subject to the Abatement provisions of the Lease described below, the County shall pay to the Corporation rental as Base Rental Payments with respect to the Equipment at the times and in the amounts set forth in the Base Rental Payment Schedule attached to the Lease, commencing August 1, 2002. The obligation of the County to pay Base Rental Payments (and Additional Rental) shall commence on the Closing Date. Each Base Rental Payment shall be paid by wire transfer not later than one Business Day preceding its due date.

Additional Rental. Subject to the Abatement provisions of the Lease, the County shall also pay, as rental under the Lease, in addition to the Base Rental Payments, to the Corporation or the Trustee, as hereinafter provided, such amounts in each year as shall be required for the payment of all costs and expenses incurred by the Corporation in connection with the execution, performance or enforcement of the Lease or the assignment of the Lease pursuant to the Assignment Agreement, the Trust Agreement or the respective interests in the Equipment and the lease of the Equipment by the Corporation to the County under the Lease, including but not limited to all fees, costs and expenses and all administrative costs of the Corporation relating to the Equipment including, without limiting the generality of the foregoing, salaries and wages of employees, overhead, insurance premiums, taxes and assessments (if any), expenses, compensation and indemnification of the Trustee (to the extent not paid or otherwise provided for out of the proceeds of the sale of the Certificates), fees of auditors, accountants, attorneys or engineers, insurance premiums, and all other reasonable and necessary administrative costs of the Corporation or charges required to be paid by it to comply with the terms of the Certificates or the Trust Agreement; provided, however, the maximum amount payable by the County under the Lease to the Corporation per year shall not exceed \$20,000.

The foregoing Additional Rental shall be billed to the County by the Corporation or the Trustee from time to time, together with a statement certifying that the amount billed has been incurred or paid by the Corporation, the Trustee or the Trustee on behalf of the Corporation for one or more of the items above described, or that such amount is then so payable for such items. Amounts so billed shall be paid by the County no later than the latest time as such amounts may be paid without penalty or, if no penalty is associated with a late payment of such amounts, within 30 days after receipt of a bill by the County for such amounts.

The Corporation may issue bonds and may enter into leases to finance facilities other than the Equipment. The administrative costs of the Corporation shall be allocated among said facilities and the Equipment, as hereinafter in this paragraph described. Any taxes levied against the Corporation with respect to the Equipment, the fees of the Trustee and any other expenses directly attributable to the Equipment shall be included in the Additional Rental payable under the Lease. Any taxes levied against the Corporation with respect to real property

other than the Equipment, the fees of any trustee or paying agent under any resolution securing bonds of the Corporation or any trust agreement or indenture other than the Trust Agreement, and any other expenses directly attributable to any facilities other than the Equipment shall not be included in the administrative costs of the Equipment and shall not be paid from the Additional Rental payable under the Lease. Any expenses of the Corporation not directly attributable to any particular project of the Corporation shall be equitably allocated among all such projects, including the Equipment, in accordance with sound accounting practice. In the event of any question or dispute as to such allocation, the written opinion of an independent firm of certified public accountants employed by the Corporation to consider the question and render an opinion thereon, shall be final and conclusive determination as to such allocation.

Consideration. Such payments of Base Rental Payments and Additional Rental for each Lease Year or portion thereof during the term of the Lease shall constitute the total rental for such Lease Year or portion thereof and shall be paid or payable by the County for and in consideration of the right of the use and possession of, and the continued quiet use and enjoyment of, the Equipment. On the Closing Date, the County shall deliver a certificate to the Authority and the Trustee, which shall set forth the annual fair rental value of the Equipment. The parties to the Lease have agreed and determined that the annual fair rental value of the Equipment is not less than the maximum Base Rental Payments payable under the Lease in any year. In making such determinations of annual fair rental value, consideration has been given to a variety of factors including the replacement costs of the existing improvements on the Equipment, other obligations of the parties under the Lease, the uses and purposes which may be served by the improvements on the Equipment and the benefits therefrom which will accrue to the County and the general public.

The parties to the Lease acknowledge that they may amend the Lease from time to time to increase the Base Rental Payments payable under the Lease so that Additional Certificates may be executed and delivered pursuant to the Lease and the Trust Agreement. The proceeds of such Additional Certificates shall be used for any lawful purpose. Notwithstanding anything to the contrary contained in the Lease, the Lease may not be amended in a manner such that the sum of Base Rental Payments, including Base Rental Payments payable pursuant to such amendment, and Additional Rental with respect to the Outstanding Certificates and Additional Certificates secured by the Equipment in any year is in excess of the annual fair rental value of the Equipment.

Payment; Credit. Each installment of Base Rental Payments payable under the Lease shall be paid in lawful money of the United States of America to or upon the order of the Corporation at the principal corporate trust office of the Trustee or such other place as the Trustee shall designate. Any such installment of rental accruing under the Lease which shall not be paid when due shall remain due and payable until received by the Trustee, and to the extent permitted by law shall bear simple interest at the rate of ten percent per annum from the date when the same is due under the Lease until the same shall be paid. Notwithstanding any dispute between the County and the Corporation, the County shall make all rental payments when due, without deduction or offset of any kind, and shall not withhold any rental payments pending the final resolution of any such dispute. In the event of a determination that the County was not liable for said rental payments or any portion thereof, said payments or excess of payments, as the case may be, shall, at the option of the County, be credited against subsequent rental payments due under the Lease or be refunded at the time of such determination. Amounts required to be deposited by the County with the Trustee described in the foregoing on any date shall be reduced to the extent of amounts on deposit on such date in the Interest Fund or the Principal Fund held under the Trust Agreement.

Annual Budgets; Reporting Requirements. The County covenants to take such action as may be necessary to include all Base Rental Payments and Additional Rental payments due under the Lease in its operating budget for each fiscal year commencing after the date of the execution of the Lease (an "Operating Budget") and to make all necessary appropriations for such Base Rental Payments and Additional Rental payments. In addition, to the extent permitted by law, the County covenants to take such action as may be necessary to amend or supplement the budget appropriations for payments under the Lease at any time and from time to time during any fiscal year in the event that the actual Base Rental Payments and Additional Rental paid in any fiscal year exceeds the pro rata portion of the appropriations then contained in the County's budget.

Application of Rental Payments. All Base Rental Payments received shall be applied first to the Base Rental Payments due under the Lease (including any prepayment premium components) and thereafter to all

Additional Rental due under the Lease, but no such application of any payments which are less than the total rental due and owing shall be deemed a waiver of any default under the Lease.

Prepayment of Base Rental Payments. The County may prepay, from eminent domain proceeds or net insurance proceeds received by it pursuant to the Lease, all or any portion of the components of Base Rental Payments relating to any portion of the Lease then unpaid, in whole on any date, or in part on any date in integral multiples of an Authorized Denomination so that the aggregate annual amounts of principal components of Base Rental Payments represented by the Certificates and any Additional Certificates which shall be payable after such prepayment date shall each be in an integral multiple of an Authorized Denomination and shall be as nearly proportional as practicable to the aggregate annual amounts of principal components of Base Rental Payments represented by the Certificates and any Additional Certificates, with respect to the portion of the Equipment so prepaid.

Before making any prepayment described in the paragraph above, at least 45 days before the prepayment date the County shall give written notice to the Authority and the Trustee describing such event, specifying the order of Principal Payment Dates and specifying the date on which the prepayment will be made, which date shall be not less than 30 nor more than 60 days from the date such written notice is given to the Authority and the Trustee.

Abatement. Except to the extent of (a) amounts held by the Trustee in the Base Rental Payment Fund or in the Certificate Reserve Fund, (b) amounts received in respect of use and occupancy insurance, and (c) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Certificates or Additional Certificates, during any period in which, by reason of material damage, destruction, title defect or condemnation, there is substantial interference with the use and possession by the County of any portion of the Equipment, rental payments due hereunder with respect to the Equipment shall be abated to the extent that the annual fair rental value of the portion of the Equipment in respect of which there is no substantial interference is less than the annual Base Rental Payments and Additional Rental, in which case rental payments shall be abated only by an amount equal to the difference. In the event the County shall assign, transfer or lease any or all of the Equipment or other rights hereunder, as permitted by the Lease, for purposes of determining the annual fair rental value available to pay Base Rental Payments and Additional Rental, annual fair rental value of the Equipment shall first be allocated to the Lease as provided in the Lease. Any abatement of rental payments described in this paragraph shall not be considered an Event of Default as defined in the Lease. Such abatement shall continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Equipment so damaged, destroyed, defective or condemned.

In the event that rental is abated, in whole or in part, pursuant to the Lease due to damage, destruction, title defect or condemnation of any part of the Equipment and the County is unable to repair, replace or rebuild the Equipment from the proceeds of insurance, if any, the County agrees to apply for and to use its best efforts to obtain any appropriate state and/or federal disaster relief in order to obtain funds to repair, replace or rebuild the Equipment.

Obligation to Make Rental Payments. The agreements and covenants on the part of the County contained in the Lease shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the County to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the County to carry out and perform the agreements and covenants contained herein agreed to be carried out and performed by the County.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION TO MAKE BASE RENTAL PAYMENTS CONSTITUTES AN INDEBTEDNESS OF THE COUNTY OF SAN DIEGO, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Additional Certificates. In addition to the Certificates to be executed and delivered under the Trust Agreement the County may, from time to time, but only upon satisfaction of the conditions to the execution and delivery of Additional Certificates set forth in the Trust Agreement, enter into a Supplemental Trust Agreement to execute and deliver Additional Certificates on a parity with the Certificates and any previously executed and delivered Additional Certificates (unless otherwise provided in the related Supplemental Trust Agreement), the proceeds of which may be used for any lawful purpose by the County, as provided in the Supplemental Trust Agreement; *provided* that prior to or concurrently with the execution and delivery of the Additional Certificates, the County and the Authority shall have entered into an amendment to the Lease, providing for an increase in the Base Rental Payments to be made under the Lease.

Certain Covenants

Maintenance of the Equipment by the County. The County agrees that, at all times during the term of the Lease, it will, at its own cost and expense, maintain, preserve and keep the Equipment and every portion thereof in good repair, working order and condition and that it will from time to time make or cause to be made all necessary and proper repairs, replacements and renewals. The Corporation shall have no responsibility in any of these matters or for the making of additions or improvements to the Equipment, provided, however, that the foregoing shall not preclude the Board from exercising its rights under the Abatement provisions of the Lease.

Taxes, Other Governmental Charges and Utility Charges. The parties to the Lease contemplate that the Equipment will be used for public purposes by the County and, therefore, that the Equipment will be exempt from all taxes presently assessed and levied with respect to real or personal property. In the event that the use, possession or acquisition by the County or the Corporation of the Equipment is found to be subject to taxation in any form, the County will pay during the term of the Lease, as the same respectively become due, all taxes and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Equipment and any other property acquired by the County in substitution for, as a renewal or replacement of, or a modification, improvement or addition to, the Equipment, as well as all gas, water, steam, electricity, heat, power, air conditioning, telephone, utility and other charges incurred in the operation, maintenance, use, access to and upkeep of the Equipment; provided, that, with respect to any governmental charges or taxes that may lawfully be paid in installments over a period of years, the County shall be obligated to pay only such installments as are accrued during such time as the Lease is in effect.

Tax Covenants. Subject to the rights of the Board under the Lease, the County will not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of the interest evidenced and represented by the Certificates and any Additional Certificates pursuant to Section 103 of the Code. Without limiting the generality of the foregoing, the County agrees to comply with the provisions of the Tax Certificate. This Covenant shall survive the payment in full or defeasance of the Certificates and Additional Certificates.

Insurance. The County shall procure or cause to be procured and maintain or cause to be secured and maintained at all times with insurers of recognized responsibility or through a program of self-insurance or self-funding to the extent specifically permitted in the Lease, such coverage on the Equipment as required by the Lease. Such insurance shall consist of:

(1) A policy or policies of insurance against loss or damage to the Equipment known as "all risk," including flood, but excluding earthquake, which shall be maintained at any time in an amount per occurrence at least equal to the lesser of (i) the cumulative replacement values of the Equipment and, in the case of a policy covering more than the Equipment, as permitted by the next succeeding sentence, any other property which is the subject of a lease, installment purchase agreement or other financing arrangement for which bonds, certificates of participation or other obligations shall have been issued ("Obligations") or (ii) the unpaid principal or face amounts due on all Obligations and Certificates and Additional Certificates which are Outstanding; provided that with the consent of the Insurer, the amount of coverage described in this sentence may be reduced to a smaller amount if an Insurance Consultant or insurance broker retained by the County provides written advice to the Trustee that, based upon its evaluation of the County's maximum foreseeable loss in the event of a major conflagration, windstorm, explosion, riot, flood or similar event, a specified smaller amount is believed to be reasonable given the nature of the risks insured and the proximity of the insured properties to each other. Such insurance may be in the form of a

policy which covers the Equipment and similarly situated equipment or personal property leased or owned by the County which may be limited in an amount per occurrence in the aggregate to the amount required by the preceding sentence. Such insurance may at any time include a deductible clause providing for a deductible not to exceed \$100,000 for any one loss (except for flood, in which case the deductible may not exceed \$100,000 for any one loss); provided that the amount of such deductibles may be increased with the consent of the Insurer. The requirements of the deductible clause not satisfied by an insurance policy shall be met through the County's self insurance program. The County may obtain an otherwise conforming policy required by paragraph (1) as a joint insured with one or more other public agencies located within or without the County of San Diego which may be limited in an amount per occurrence in the aggregate for all insureds as described in the first sentence under this paragraph (1). The County is, however, under no obligation to provide insurance against loss or damage occasioned by the perils of earthquake. Otherwise conforming policies satisfying the requirements of this paragraph (1) may provide that amounts payable as coverage under this paragraph (1) may be reduced by amounts payable under paragraph (2) for the same occurrence, and vice versa.

(2) So long as any Certificates or Additional Certificates are Outstanding, rental interruption insurance to cover loss, total or partial, of the use of any part of the Equipment as a result of any of the hazards covered by the insurance required pursuant to paragraph (1) above, in an amount sufficient at all times to pay the total rent payable under the Lease for a period adequate to cover the period of repair or replacement, but in no event shall such policy be in an amount less than one (1) year of Base Rental Payments for the Equipment; *provided that* such rental interruption insurance may be included in the policy or policies provided pursuant to paragraph (1) without increasing the aggregate limits for coverage with respect to any hazard covered thereby. Such insurance also may be in the form of a policy which covers the Equipment and other property leased or owned by the County. The County also may obtain an otherwise conforming policy required by this paragraph (2) as a joint insured with one or more other public agencies within or without the County of San Diego which may, with respect to any hazard, be limited in aggregate amount for all insureds to the amount of the policy or policies required pursuant to paragraph (1) above, as the case may be, which insures against such hazard. Otherwise conforming policies satisfying the requirements of this paragraph (2) may provide that amounts payable as coverage under this paragraph (2) may be reduced by amounts payable under paragraph (1) for the same occurrence, and vice versa.

The County shall collect, adjust and receive all moneys which may become due and payable under any policies contemplated by the Lease, and, may compromise any and all claims thereunder and shall transfer the net proceeds of such insurance as provided in the Lease or in the Trust Agreement. The Trustee shall not be responsible for the sufficiency of any insurance herein described. The Trustee shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the County.

Any insurance policy issued in accordance with the foregoing shall be so written or endorsed as to make losses, if any, payable to the County, the Corporation and the Trustee as their respective interests may appear and the net proceeds of the insurance in accordance with the foregoing shall be applied as provided in the Lease. The net proceeds, if any, of the insurance policy described in the foregoing shall be payable to the County for deposit in the Insurance Proceeds and Condemnation Awards Fund. Each insurance policy described in the foregoing shall contain a provision to the effect that the insurance company shall not cancel the policy or modify it materially and adversely to the interests of the Corporation or the Trustee without first giving written notice thereof to the Corporation and the Trustee at least 30 days in advance of such intended cancellation or modification.

The County shall file a Certificate of the County with the Trustee and the Insurer not later than January 31 of each year certifying that the insurance policies required by the foregoing are in full force and effect and that the Corporation and/or the Trustee is named as a loss payee on each insurance policy which the Lease requires to be so endorsed. The County will provide the Insurer with copies of such insurance policies upon request. The Trustee shall have no responsibility whatsoever for determining the adequacy of any insurance required under the Lease.

Advances. In the event the County shall fail to maintain the full insurance coverage required by the Lease or shall fail to keep the Equipment in good repair and operating condition, the Corporation may (but shall be under no obligation to) purchase the required policies of insurance and pay the premiums on the same or may make such repairs or replacements as are necessary and provide for payment thereof; and all amounts so advanced

therefor by the Corporation shall become Additional Rental, which amounts the County agrees to pay within 30 days of a written request therefor, together with interest thereon at the maximum rate allowed by law, subject in all cases to the availability of appropriated funds.

Damage, Destruction and Condemnation; Use of Net Proceeds.

If prior to the termination of the term of the Lease (i) the Equipment or any part thereof is damaged (each of which is hereinafter called "Damaged Equipment") by a peril covered by a policy of insurance described in the Lease (an "Insured Peril"), or (ii) title to, or the temporary use of, the Equipment or any portion thereof or the estate of the County or the Corporation in the Equipment or any portion thereof (each of which is hereinafter called "Condemned Equipment") shall be taken under the exercise of the power of eminent domain by any governmental body or by any person or firm or corporation acting under governmental authority (a "Condemnation Event"), or (iii) the Equipment or any part thereof is the subject of an action, suit or proceeding which results in a damage award or monetary settlement which award, net of its costs, attorney's fees, and expenses, the County has determined, at its sole discretion, to include among Net Proceeds (an "Adjudicated Claim"), then the County and the Corporation will cause the Net Proceeds of any insurance claim, condemnation award or monetary settlement damage award to be transferred to the County for deposit in the Insurance Proceeds and Condemnation Awards Fund established pursuant to the Trust Agreement and applied as follows:

Net Proceeds Exceeding Costs. Within 120 days of the date of said Insured Peril or Condemnation Event, the County shall obtain a written estimate(s) of the (i) cost of the repair, replacement and reconstruction of the Damaged Equipment or Condemned Equipment (collectively referred to as the "Reconstruction"), and (ii) Net Proceeds available to pay such costs. Copies of such estimate(s) shall be made available to the Corporation at the Corporation's request. If the 120 day period is insufficient to obtain said estimates, the period shall be reasonably extended by the Chief Financial Officer. If the Net Proceeds equal or exceed the estimated costs of Reconstruction, the Damaged Equipment or Condemned Equipment shall be repaired, replaced and reconstructed to the same or better quality as existed before the damage occurred. The County shall commence and manage the Reconstruction and shall complete the Reconstruction as soon as reasonably possible after the occurrence of such damage. Any balance of Net Proceeds remaining after the Reconstruction has been completed may be used by the County for any lawful purpose.

Costs Exceeding Proceeds. If the estimated costs of Reconstruction exceed the Net Proceeds, the County, in its sole discretion, may elect to budget and appropriate to the Reconstruction the amount of such excess, whether the same is greater or less than the estimated excess, and to manage the Reconstruction as set forth in the Lease. The County shall exercise this election by written notice thereof delivered to the Corporation within 30 days after the County obtains said written estimate(s).

Net Proceeds Sufficient to Repay All Certificates and Additional Certificates. If the County does not exercise the election to reconstruct in accordance with the provisions described in the previous paragraph and Net Proceeds are at least sufficient, when invested in accordance with the Trust Agreement, to repay all Outstanding Certificates and Additional Certificates, in accordance with their terms at maturity, the Net Proceeds shall be deposited with the Trustee with directions to invest and hold the proceeds in accordance with the Trust Agreement and repay all Outstanding Certificates and Additional Certificates, all in the manner provided by the Trust Agreement, whereupon the early termination provisions of the Lease shall be applicable. If the Net Proceeds exceed the amount necessary to make such a deposit with the Trustee, the County shall be entitled to any excess amount of Net Proceeds remaining and may use the same for any lawful purpose.

Net Proceeds Insufficient to Prepay All Certificates and Additional Certificates. If the County does not exercise its election to reconstruct in accordance with the provisions described under the heading "Damage, Destruction, Title Defect and Condemnation; Use of Net Proceeds – Costs Exceeding Proceeds" above and Net Proceeds are insufficient to defease to all Outstanding Certificates and Additional Certificates, in accordance with their terms at maturity, pursuant to the Trust Agreement, the Net Proceeds shall be transferred to the Trustee with directions to apply the proceeds to the Base Rental Payment Fund established under the Trust Agreement to pay principal of and interest on the Certificates and Additional

Certificates, when due, until exhausted, with interest which is due being paid before the payment of any principal which is due. Partial payments shall be pro-rated among Owners based upon the principal amount of Certificates and Additional Certificates held.

Management of Reconstruction. If the Equipment or any part thereof becomes Damaged Equipment or Condemned Equipment, the County shall promptly cause, manage and supervise any Reconstruction. Nothing in this section shall be construed to preclude the County or the Corporation from agreeing to issue a joint contract(s) for, or otherwise cooperating in, the Reconstruction of any of the Damaged Equipment or Condemned Equipment.

Disclaimer of Warranties; Vendor's Warranties; Use of the Equipment

Disclaimer of Warranties. FOR PURPOSES OF THE LEASE ONLY, THE CORPORATION MAKES NO AGREEMENT, WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR PARTICULAR PURPOSE OR FITNESS FOR USE OF THE EQUIPMENT, OR WARRANTY WITH RESPECT THERETO. THE COUNTY ACKNOWLEDGES THAT THE CORPORATION IS NOT A MANUFACTURER OF ANY PORTION OF THE EQUIPMENT OR A DEALER THEREIN. THAT THE COUNTY LEASES THE EQUIPMENT AS-IS, IT BEING AGREED THAT ALL OF THE AFOREMENTIONED RISKS ARE TO BE BORNE BY THE COUNTY. In no event shall the Corporation be liable for any incidental, indirect, special or consequential damage in connection with or arising out of the Lease or the existence, furnishing, functioning or the County's use of the Equipment as provided in the Lease.

Use of the Equipment. The County will not use, operate or maintain the Equipment improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by the Lease. The County shall provide all permits and licenses, if any, necessary for the use of the Equipment. In addition, the County agrees to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of each portion of the Equipment) with all laws of the jurisdictions in which its operations involving any portion of the Equipment may extend and any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Equipment; provided, that the County may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the County adversely affect the estate of the Corporation in and to the Equipment or its interest or rights under the Lease.

Assignment and Indemnification

Assignment by Corporation. Certain of the rights of the Corporation under the Lease will be assigned to the Trustee pursuant to the Assignment Agreement and accordingly the County agrees to make all payments due under the Lease to the Trustee, notwithstanding any claim, defense, setoff or counterclaim whatsoever (whether arising from a breach of the Lease or otherwise) that the County may from time to time have against the Corporation. The County agrees to execute all documents, including notices of assignment and chattel mortgages or financing statements, which may be reasonably requested by the Corporation or the Trustee to protect their interests in the Equipment during the term of the Lease.

Assignment by County. The Lease and the interest of the County in the Equipment may not be assigned or encumbered by the County except as permitted in the provisions relating to "Prohibition Against Encumbrance or Sale."

Indemnification. (a) The County shall, to the full extent permitted by law, indemnify, protect, hold harmless, save and keep harmless the Corporation and the Trustee and their respective directors, officers and employees from and against any and all liability, obligations, losses, claims and damages whatsoever, regardless of the cause thereof, and expenses in connection therewith, including, without limitation, counsel fees and expenses as incurred, penalties and interest (collectively, a "Claim"), arising out of the acquisition, operation, use, condition, or possession of the Equipment and any portion thereof, including:

(1) any accident in connection with the operation, use, condition or possession of the Equipment and any portion thereof, resulting in damage to property or injury to or death to any person including, without limitation, any Claim alleging latent and other defects, whether or not discoverable by the County or the Corporation;

(2) patent trademark or copyright infringement as a consequence of the operation of the Equipment and any portion thereof;

(3) strict liability in tort as a consequence of the operation of the Equipment and any portion thereof;

(4) except as described in (b)(5) below, any environmental law or regulation as a consequence of the operation of the Equipment; and

(5) except as described in (b)(5) below, the existence, placement, delivery, storage or release of hazardous materials on the Equipment or contamination of property, arising therefrom.

(b) Pursuant to the Lease, the Corporation shall, to the full extent then permitted by law, indemnify, protect, hold harmless, save and keep harmless the County and the Trustee and their respective directors, officers and employees from and against any and all liability, obligations, losses, fines, penalties, claims and damages whatsoever, regardless of the cause thereof, and expenses in connection therewith, including, without limitation, counsel fees and expenses as incurred, penalties and interest (collectively, a "Claim") arising out of or as the result of the acquisition, installation, operation, use, condition, or possession of the Equipment and any portion thereof, including:

(1) any accident in connection with the operation, use, condition or possession of the Equipment and any portion thereof, resulting in damage to property or injury to or death to any person including, without limitation, any Claim alleging latent and other defects, whether or not discoverable by the County or the Corporation;

(2) patent trademark or copyright infringement as a consequence of the operation of the Equipment and any portion thereof;

(3) strict liability in tort as a consequence of the operation of the Equipment and any portion thereof;

(4) any environmental law or regulation as a consequence of the operation of the Equipment and any portion thereof; and

(5) the existence, placement, delivery, storage or release of hazardous materials on the Equipment or contamination of property, arising therefrom.

The indemnification arising under the Lease shall continue in full force and effect notwithstanding the full payment of all obligations under the Lease or the termination of the Lease for any reason or the resignation or removal of the Trustee. The County and the Corporation mutually agree to promptly give notice to each other of any claim or liability indemnified under the Lease against following the learning thereof by such party.

Events of Defaults and Remedies

Default. (a) The following events are "events of default" under the Lease and the terms "event of default" and "default" shall mean, whenever they are used in the Lease, any one or more of the following events:

(1) The County shall fail to deposit with the Trustee any Base Rental Payment required to be so deposited by the close of business on the day such deposit is required pursuant to the Lease, provided that the failure to deposit any Base Rental Payments abated pursuant to the Lease shall not constitute an event of default;

(2) The County shall fail to pay any item of Additional Rental when the same shall become due and payable pursuant to the Lease, provided that the failure to pay the Additional Rental abated pursuant to the Lease shall not constitute an event of default; or

(3) The County shall breach any other terms, covenants or conditions contained in the Lease or in the Trust Agreement, and shall fail to remedy any such breach with all reasonable dispatch within a period of 30 days after written notice thereof from the Corporation to the County; provided, however, that if the failure stated in the notice cannot be corrected within such period, then the Corporation shall not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the County within such period and is diligently pursued until the default is corrected.

Upon the happening of any of the events specified in subsection (a) or (b) under this heading (in either case an "Event of Default"), it shall be lawful for the Corporation or its assignee, subject to the terms of the Lease, to exercise any and all remedies available or granted to it pursuant to law or under the Lease, subject to the direction, consent and control of the Insurer so long as it is not in default under the Financial Guaranty Insurance Policy.

The Corporation or its assignee, in addition to all other rights and remedies it may have at law, shall have the option to do any of the following subject to the direction, consent and control of the Insurer so long as it is not in default under the Financial Guaranty Insurance Policy:

(1) To terminate the Lease in the manner hereinafter described on account of default by the County, notwithstanding any retaking of possession or re-letting of the Equipment as hereinafter described in subparagraph (2), and to retake possession of the Equipment. In the event of such termination, the County agrees to surrender immediately possession of the Equipment, without let or hindrance, and to pay the Corporation or its assignee all damages recoverable at law that the Corporation or its assignee may incur by reason of default by the County, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such retaking possession of the Equipment. Neither notice to pay rent nor to deliver up possession of the Equipment given pursuant to law nor any proceeding in unlawful detainer, or otherwise, brought by the Corporation or its assignee for the purpose of obtaining possession of the Equipment nor the appointment of a receiver upon initiative of the Corporation or its assignee to protect the Corporation's or its assignee's interest under the Lease shall of itself operate to terminate the Lease, and no termination of the Lease on account of default by the County shall be or become effective by operation of law or acts of the parties to the Lease, unless and until the Corporation or its assignee shall have given written notice to the County of the election on the part of the Corporation or its assignee to terminate the Lease.

(2) Without terminating the Lease, to collect each installment of rent as it becomes due, and enforce any other term or provision of the Lease to be kept or performed by the County. In the event the Corporation or its assignee does not elect to terminate the Lease in the manner provided for in subparagraph (1) then, subject to the Abatement provisions of the Lease, the County shall remain liable and shall keep or perform all covenants and conditions under the Lease to be kept or performed by the County and, to pay the rent to the end of the term of the Lease or, in the event that the Equipment is re-let, to pay any deficiency in rent that results therefrom but only for the then current fiscal year for which rent has been budgeted and appropriated pursuant to the Lease. The Corporation or its assignee may re-let the Equipment in the event of such reentry without effecting a surrender of the Lease, and no acts of the Corporation or its assignee in effecting such re-letting shall constitute a surrender or termination of the Lease until the end of the then current fiscal year for which rent has been budgeted and appropriated irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise, but that on the contrary, in the event of such default by the County, the right to terminate the Lease prior to the end of the fiscal year for which rent has been budgeted and appropriated shall vest in the Corporation or its assignee to be effected in accordance with the Lease. The County further waives the right to rental obtained by the Corporation or its assignee in excess of the rental specified in the Lease and conveys and releases such excess to the Corporation or its assignee as compensation to the Corporation or its assignee for its services in re-letting the Equipment or any items thereof.

The County waives any and all claims for damages caused or which may be caused by the Corporation or its assignee in taking possession of the Equipment as provided in the Lease and all claims for

damages that may result from the destruction of or injury to the Equipment and all claims for damages to or loss of any property belonging to the County, or any other person, that may be on or about the Equipment.

(b) In addition to any default resulting from breach by the County of any agreement, condition, covenant or term of the Lease, if (1) the County's interest in the Lease or any part thereof be assigned, sublet or transferred without the written consent of the Corporation (except as otherwise permitted by the Lease), either voluntarily or by operation of law; or (2) the County or any assignee shall file any petition or institute any proceedings under any act or acts, state or federal, dealing with or relating to the subject of bankruptcy or insolvency or under any amendment of such act or acts, either as a bankrupt or as an insolvent or as a debtor or in any similar capacity, wherein or whereby the County asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of its debts or obligations, or offers to its creditors to effect a composition or extension of time to pay its debts, or asks, seeks or prays for a reorganization or to effect a plan of reorganization or for a readjustment of its debts or for any other similar relief, or if the County shall make a general or any assignment for the benefit of its creditors; or (3) the County shall abandon or vacate the Equipment or any portion thereof (except as permitted by the Lease); then in each and every such case the County shall be deemed to be in default under the Lease.

Third Party Beneficiaries

Each of the Trustee and the Insurer is designated as a third party beneficiary under the Lease for the purpose of enforcing any of the rights under the Lease assigned to the Trustee under the Assignment Agreement and under the Lease.

Net Lease

It is the purpose and intent of the Corporation and the County that rental payments under the Lease shall be absolutely net to the Corporation so that the Lease shall yield to the Corporation the lease payments, free of any charges, assessments or impositions of any kind charged, assessed or imposed on or against the Equipment, and without counterclaim, deduction, defense, deferment or set-off by the County except as specifically otherwise provided in the Lease. The Corporation shall not be expected or required to pay any such charge, assessment or imposition, or be under any obligation or liability under the Lease except as therein expressly set forth, and all costs, expenses and obligations of any kind relating to the maintenance and operation of the Equipment which may arise or become due during the term of the Lease shall be paid by the County.

Amendments to Lease

The Lease may be amended in writing as may be mutually agreed by the Corporation and the County, subject to the written approval of the Trustee; provided, that no such amendment which materially adversely affects the rights of the Owners shall be effective unless it shall have been consented to by either the Insurer, if not then in default under its insurance policy, or the Owners of more than 50% in aggregate principal amount of the Certificates and Additional Certificates Outstanding, and provided further, that no such amendment shall (a) extend the payment date of any Base Rental Payment, or reduce the interest, principal or prepayment premium component of any Base Rental Payment, without the prior written consent of the Owner of each Certificate or Additional Certificate so affected, or (b) reduce the percentage of the value of the Certificates and Additional Certificates Outstanding the consent of the Owners of which is required for the execution of any amendment of the Lease.

The Lease and the rights and obligations of the Corporation and the County thereunder may also be amended or supplemented at any time by an amendment thereof or supplement thereto, which shall become binding upon execution without the written consents of any Owners, but only to the extent permitted by law and, subject to the written approval of the Insurer, only for any one or more of the following purposes --

(1) to add to the agreements, conditions, covenants and terms required by the Corporation or the County to be observed or performed in the Lease and other agreements, conditions, covenants and terms thereafter to be observed or performed by the Corporation or the County, or to surrender any right or power reserved

to or conferred under the Lease on the Corporation or the County, and which in either case shall not materially adversely affect the interests of the Owners;

(2) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Lease or in regard to questions arising thereunder which the Corporation or the County may deem desirable or necessary and not inconsistent therewith, and which shall not materially adversely affect the interests of the Owners;

(3) to effect a Substitution or Removal in accordance with the Lease; or

(4) to make any other addition, amendment or deletion which does not materially adversely affect the interests of the Owners.

Discharge of County

Upon the payment to the Owners of all Outstanding Certificates and Additional Certificates in accordance with the Trust Agreement, all of the obligations of the County under the Lease shall thereupon cease, terminate and become void and shall be discharged and satisfied; provided, however, if any Outstanding Certificates and Additional Certificates shall be deemed to have been paid by virtue of a deposit contemplated by the provisions relating to defeasance in the Trust Agreement, then the obligation of the County under the Lease to make Base Rental Payments shall continue in full force and effect until all Outstanding Certificates and Additional Certificates have in fact been paid, but such payments shall be made solely and exclusively from moneys and securities deposited with the Trustee as contemplated by the provisions relating to defeasance in the Trust Agreement, and that shall be the sole source of satisfaction of the County's obligation to make Base Rental Payments. The time period for giving notice by the County to the Corporation and the Trustee specified in the Abatement provisions of the Lease shall not apply incident to the payment to the Owners of all Outstanding Certificates and Additional Certificates in accordance with the Trust Agreement.

California Law

The Lease shall be governed by and construed and interpreted in accordance with the laws of the State of California.

ASSIGNMENT AGREEMENT

The Corporation will assign its rights to receive Base Rental Payments from the County under the Lease to the Trustee for the benefit of the Owners of the Certificates pursuant to the Assignment Agreement, the terms of which are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entireties by reference to the full terms of the Assignment Agreement.

Assignment. The Corporation unconditionally and irrevocably grants, transfers and assigns to the Trustee, without recourse or warranty, (i) all right, title and interest of the Corporation as lessee under the Ground Lease; (ii) all rights of the Corporation to receive the Base Rental Payments scheduled to be paid by the County under and pursuant to the Lease for the benefit of the Owners of the Certificates; (iii) all rents, profits and products from the Equipment to which the Corporation has any right or claim whatsoever under the Lease; (iv) the right to take all actions and give all consents under the Lease; (v) the right of access more particularly described in the Lease; and (vi) any and all other rights and remedies of the Corporation in the Lease as lessor thereunder for the purpose of (a) paying all sums due and owing to the Owners of the Certificates under the terms of the Trust Agreement, and (b) performing and discharging each agreement, covenant and obligation of the County contained in the Lease and in the Trust Agreement.

Acceptance. The Trustee accepts the foregoing assignment for the benefit of the Owners of the Certificates, subject to the conditions and terms of the Trust Agreement, and all such Base Rental Payments shall be applied and all such rights so assigned shall be exercised by the Trustee as provided in the Trust Agreement.

Conditions. The Assignment Agreement shall confer no rights and shall impose no obligations upon the Trustee beyond those expressly provided in the Trust Agreement. The Trustee shall not be responsible for the accuracy of the recitals therein. The Trustee is entering into the Assignment Agreement solely in its capacity as Trustee under the Trust Agreement and not in its individual or personal capacity. The Trustee is not responsible for the duties or obligations of the Corporation under the Lease or for any recitals, covenants, representations or warranties of the Corporation thereunder.

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APPENDIX D

BOOK-ENTRY SYSTEM

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Certificate will be issued for each of the Certificates, in the aggregate principal amount of each such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. "Direct Participants" include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Certificates with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Certificates. Under its usual procedures, DTC will mail an omnibus proxy to the Corporation as soon as

possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the omnibus proxy).

Redemption proceeds, distributions, and dividend payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Corporation or Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Trustee, or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividends to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation or Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to the Corporation or Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, physical Certificates are required to be printed and delivered. Further, the Corporation may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical Certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Corporation believes to be reliable, but the Corporation takes no responsibility for the accuracy thereof.

BENEFICIAL OWNERS WILL NOT RECEIVE PHYSICAL DELIVERY OF BONDS AND WILL NOT BE RECOGNIZED BY THE TRUSTEE AS OWNERS THEREOF UNDER THE TERMS OF THE BOARD RESOLUTION, AND BENEFICIAL OWNERS WILL BE PERMITTED TO EXERCISE THE RIGHTS OF OWNERS ONLY INDIRECTLY THROUGH DTC AND THE PARTICIPANTS.

NEITHER THE AUTHORITY NOR THE COUNTY WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO DTC PARTICIPANTS OR THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS.

APPENDIX E

FORM OF LEGAL OPINION

Upon the execution and delivery of the Certificates, Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, and The HTB Law Group, Oakland, California, Co-Special Counsel, propose to issue their final opinion in substantially the following form:

[Date of Issuance]

County of San Diego
1600 Pacific Highway
San Diego, California 92101

\$26,060,000
County of San Diego Certificates of Participation (2002 Motorola Refunding)
(Final Opinion)

Ladies and Gentlemen:

We have acted as Co-Special Counsel in connection with the execution and delivery of \$26,060,000 aggregate principal amount of County of San Diego Certificates of Participation (2001 Motorola Refunding) (the "Certificates"). In such connection, we have reviewed an Equipment Lease, dated as of March 1, 2002 (the "Equipment Lease"), between the County of San Diego (the "County") and the San Diego County Capital Asset Leasing Corporation (the "Corporation"), a Trust Agreement, dated as of March 1, 2002 (the "Trust Agreement"), among State Street Bank and Trust Company of California, N.A. (the "Trustee"), the County and the Corporation, an Assignment Agreement, dated as of March 1, 2002 (the "Assignment Agreement"), between the Corporation and the Trustee, a Tax Certificate of the County, dated as of the date hereof (the "Tax Certificate") and opinions of counsel to the County, the Corporation and the Trustee, certificates of the County, the Corporation, the Trustee and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

Certain agreements, requirements and procedures contained or referred to in the Equipment Lease, the Trust Agreement, the Assignment Agreement, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Certificate or the interest components of any Base Rental Payment if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such

authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Certificates has concluded with their execution and delivery, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the County. We have assumed, without undertaking to verify the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the first paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Equipment Lease, the Trust Agreement, the Assignment Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest component of Base Rental Payments to be included in gross income for federal income tax purposes.

In addition, we call attention to the fact that the rights and obligations under the Equipment Lease, the Trust Agreement, the Assignment Agreement, the Tax Certificate, the Certificates and their enforceability are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against counties in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or subject to the lien of the Equipment Lease, the Trust Agreement, or the Assignment Agreement or the accuracy or sufficiency of the description of any such property contained therein of, or scope of remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Certificates and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Equipment Lease and the Trust Agreement have been duly executed and delivered by the County and constitute valid and binding obligations of the County.
2. The obligation of the County to make the Base Rental Payments during the term of the Equipment Lease constitutes a valid and binding obligation of the County, payable from funds of the County lawfully available therefor and does not constitute a debt of the County or of the State of California within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the County or the State of California is obligated to levy or pledge any form of taxation or for which the County or the State of California has levied or pledged any form of taxation.

3. Assuming due authorization, execution and delivery of the Trust Agreement and the Certificates by the Trustee, the Certificates are entitled to the benefits of the Trust Agreement.

4. The portion of each Base Rental Payment designated as and constituting interest paid by the County under the Equipment Lease and received by the registered owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Such interest is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the accrual or receipt of such interest or the ownership or disposition of the Certificates.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

THE HTB LAW GROUP

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APPENDIX F

SPECIMEN OF FINANCIAL GUARANTY INSURANCE POLICY

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Ambac

Ambac Assurance Corporation
250 C.T. Corporation Systems
44 East Mifflin Street, Madison, Wisconsin 53703
Administrative Office:
One State Street Plaza, New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation



President

Secretary

Form No.: 2B-0015 (7/97)

Authorized Representative

Financial Guaranty Insurance Policy

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



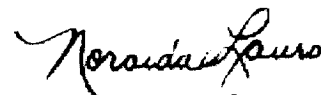
Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)



Authorized Officer of Insurance Trustee

